

# P4P Purchase for Progress Central America

July/August 2012

## Talk of the Month: Farmers' Organizations Categorization

In Central America, farmers' organizations supported by Purchase for Progress (P4P) are quite different in terms of (i) legal structure, (ii) governability structure, (iii) supply of services, (iv) management capacity, (v) installed capacity and (vi) level of training. Certain factors appeared through the P4P pilot implementation which should be taken into consideration to **support an organization to become a sustainable agricultural business**.

**P4P promotes a capacity building program** (physical, human and financial) of the participants combined with the incentive of potential WFP purchases of basic grains from farmers' organizations (FOs).

*"One of the goals in P4P is to progress relatively low-capacity FOs to the status of mature FOs that regularly participate in competitive tendering, through the provision of services: credit, equipment, technical assistance, capacity building."*

The third annual technical review panel (TRP), 2011

After three years of implementation, and considering the P4P objective of developing models that can be applied in other countries and/or contexts, it is necessary to reflect on the factors that need to be taken into account to diagnose and categorize FOs and monitor their progress.

A categorization of farmers' organization serves as a base to design and implement a tailored-made strategy to provide assistance according to needs, capacity and circumstances. It helps identify weaknesses and support OPAs to become successful players in the basic grains' markets. This diagnostic process is dynamic, evolutionary and participative.

*In Nicaragua, thanks to the FO evaluation tool, it was found that small size organizations did not have the minimum capacities for manage credit. P4P decided to strengthen FOs' capacity in this area through investment in: (i) diagnosis of funds management and credit recovery mechanisms to help institutionalize credit committees in the FOs, (ii) provision and capacity development of credit funds management systems according to type of FO and (iii) revision of FOs' credit guidance.*

This month in the bulletin we focus on:

- 1 Defining FOs' capacity for sustainable engagement with markets
- 2 Development and application of the FOs categorization tool
- 3 Analysis of key factors in order to diagnose the capacity of smallholder farmers to connect to markets (gathering capacity, revolving funds management, access to credit, quality, etc.)



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## Defining FOs' capacity for sustainable engagement with markets

P4P's goal is to support farmers' organizations **engaging with markets competitively and sustainably**. Considering the different types and levels of development, how can we define that an organization is ready? What is the exit strategy? Identification, assess to and analysis of critical elements that enable market access will provide reference points to determine when a FO is ready. It will help practitioners make decisions on how to prepare them to reach that stage.

According to the results obtained from the qualitative analysis of the project obtained through the Writeshop exercise, future P4P-like projects that work with low capacity FOs will **achieve the largest changes in smallholder livelihoods** in a short period time. Even basic training in pre- and post-harvest methods and provision of basic equipment can greatly enhance production levels and quality. These farmers' organizations also have the most to learn from experiences of group marketing. On the other hand, to **achieve reliable and cost effective procurement** in a short period time, work should be focused on high capacity FOs, with farmers who have sufficient capacity and experience in group marketing.

The **main elements** to define the FOs' sustainable capacity to engage with formal markets were identified at the qualitative study known as Writeshop conducted by Royal Tropical Institute of the Netherlands (KIT) in 2011: (i) Ability to produce (farm); (ii) Capacity to improve quality requirements (farm and FO level); (iii) Collective capacity (post-harvest and storage) to aggregate (FO); (iv) Ability to negotiate (farmer and FO); (v) Ability to build and maintain external relationships; (vi) Information and knowledge sharing capacity, internal communication and cohesion; (vii) Ability to increase working capital and/or access to external funding for equipment and storage; (viii) Corporate culture and organizational strengthening

### FOs categorization tool

The Third Annual meeting of Technical Review Panel (TRP) – committee of nine independent experts that advises on P4P implementation - held in El Salvador in 2011, recommended **strengthening the participating FOs through tailor-made capacity support**. They also advised to clearly define the capacities of low/medium/high capacity FOs, categorize them, provide them with the support required to be able to engage with formal markets. That is why a FOs categorization/evaluation tool was developed.

The tool was conceived to provide a **qualitative analysis** of the FO development level by assessing its weaknesses and strengthens. Support is provided to reinforce the weaker areas while leveraging the existing capacities. Different strategies adapted to each organization can be deployed to ensure that its business perspective guarantees sustainability and competitiveness.

The tool takes into account various categories and indicators: governance, organizational structure-management, credit management, productivity, infrastructure and storage, post-harvest, commercialization, gender, youth and environment. A consolidated score which defines the level of development of the FO is calculated by valuing performance for each indicator. The **tool takes into consideration country-specific features**. Guatemala and Honduras set four levels of development (*Incipient, In Process, Consolidated and Self-Managed*), while El Salvador and Nicaragua set three levels (*Low/Incipient, Intermediate and High/Advanced*)

The results by country so far:

- ◆ In **Guatemala**, 10 percent of the assessed FOs are considered Incipient, 36 percent are In Process, 42 percent are Consolidated and 12 percent Self-managed.
- ◆ In **El Salvador** and **Nicaragua**, 63 percent of assessed FOs qualify as Low and Intermediate development, while High Development FOs account for 37 percent.
- ◆ In **Honduras**, 37 percent of the assessed FOs are considered Incipient, 42 percent In Process, 16 percent Consolidated and 5 percent Self-Managed (note that 65 percent of P4P FOs in Honduras were established 30 years ago as small rural banks following the land reform process; before P4P, farmers had never commercialized associatively).

#### Levels of FOs Development defined by Guatemala

Self-managed - most developed organizations with the ability to co-execute production projects

Consolidated - FOs requiring short term reinforcement (<1 year)

In process - FOs requiring medium term reinforcement (from 1 to 3 years)

Incipient - FOs requiring long-term reinforcement and do not show potential to execute production projects)

### Key factors analysis

**Aggregation capacity/commercialization:** this is a critical factor to consider when assessing FOs' ability to access markets. FOs usually do not aggregate enough grain to supply markets that demand a sustainable supply of high grain volumes. Investing in infrastructures and equipment enables FOs to do post-harvest handling more efficiently and to aggregate larger quantities and higher volumes. That is the case of ADESCO-AGRISAL in El Salvador considered one of the FOs with highest volume of commercialization, thanks to infrastructure improvements, expansion of warehouses as well as access to and regular use of quality control equipment.

These investments have enabled some FOs (AGRISAL, ACAAS, Los Tabudós, etc.) to sell to markets beyond WFP. In Guatemala, ADICOMTEC and in Honduras ARSAGRO y CARNEL are considered high capacity FOs; they gather and sell beyond WFP and they have an extended membership. In Honduras, FO clusters have been established to allow P4P producers to collect higher volumes and have the opportunity to access formal markets. It is also important to consider if FOs are able to fulfill contracts.

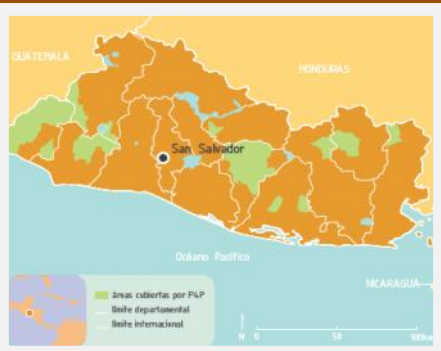
**Revolving fund management:** the capacity to repay and sustain a revolving fund for credit is usually linked with the FOs' level of development, specialization and administration. Generally the larger the membership, the more sophisticated a system is needed (it is quite different managing a revolving fund of \$30 mil among 90 people than among 450). Business processes are also easier with a smaller membership.

**Access to credit:** another critical element to consider when categorizing an FO's capacity to access markets. Financial institutions are particularly risk-averse to dealing with emerging FOs due to limited banking history, high probability of payment default caused by climatic vulnerability, low quality, and poor administrative capacity. Therefore, FOs often lack of working capital, infrastructure and storage, resulting in a low gathering capacity. Financial institutions are, however, more willing to consider loans for larger and stronger FOs based on their banking history and previous experiences with credit management. In Guatemala, BANRURAL has included P4P smallholder farmers in agricultural loans with the FO backing the members' requests.

**Quality:** formal markets have specific quality requirements which FOs need to meet to be able to commercialize. Experience so far confirms that even low capacity FOs have been able to meet WFP quality standards relatively quickly provided they are given adequate training, equipment and reward for quality. One example is AGROPTROPICAL in El Salvador; although it is considered as a low capacity FO, it has evolved by selling to a quality market. A qualitative study about P4P in the region (Writeshop 2011) concluded that thanks to P4P technical capacity building efforts on quality control (i.e. the use of the Blue Box in Guatemala) farmers have also increased their capacity to choose the right buyer according to the quality of their products.

## EL SALVADOR

|                         |               |
|-------------------------|---------------|
| <b>FOs</b>              | <b>18</b>     |
| <b>FARMERS</b>          | <b>4,706</b>  |
| <b>% WOMEN</b>          | <b>40</b>     |
| <b>CONTRACTED (MT)</b>  | <b>4,301</b>  |
| <b>TOTAL VALUE (\$)</b> | <b>1.9 M</b>  |
| <b>TRAININGS</b>        | <b>1,164</b>  |
| <b>PARTICIPANTS</b>     | <b>11,439</b> |
| <b>PARTNERSHIPS</b>     | <b>24</b>     |

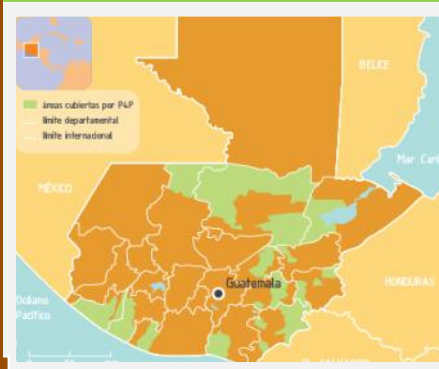


- Joint intervention agenda was agreed to with INSAFOCOOP (government entity promoting the work of cooperatives), in order to strengthen organizational work with 5 FOs in the Western Region.
- Investments and technical assistance through PRODEMOR; IFAD funded project.
- Meeting with representatives from CENTA to share Crop Monitoring System's progresses .
- Preliminary agreement with representative from CORSAIN (entity focused on investments on cooperation in El Salvador) and the Ministry of Agriculture (supply unit) to manage P4P's FOs working capital.
- Pro Credit Bank approved a credit to El GARUCHO FO.

**Key Partners:** Howard G. Buffett Foundation, DISAGRO & FERTICA, El Salvador Chamber of Commerce, FAO, Ministry of Agriculture and Livestock, the National Center for Agriculture and Forestry Technology (CENTA), PREMODER & PRODEMORO (IFAD-financed rural development programs), CARITAS undation, UNDP, World Vision.

## GUATEMALA

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|-------------------------|---------------|
| <b>FOs</b>              | <b>67</b>     |
| <b>FARMERS</b>          | <b>9,752</b>  |
| <b>% WOMEN</b>          | <b>53</b>     |
| <b>CONTRACTED (MT)</b>  | <b>17,648</b> |
| <b>TOTAL VALUE (\$)</b> | <b>8.1 M</b>  |
| <b>TRAININGS</b>        | <b>830</b>    |
| <b>PARTICIPANTS</b>     | <b>40,289</b> |
| <b>PARTNERSHIPS</b>     | <b>44</b>     |



- Mapping of relevant projects for the Joint Program on the Economic Empowerment of Rural Women (WFP, FAO, UNWOMEN, IFAD), WFP GTM lead agency.
- Coordination with the Triangle of Dignity project with Ministry of Agriculture through FONTIERRAS, inclusion of P4P FOs in credit program.
- Joint visit with BANRURAL credit officers to appraise damage from drought in the dry corridor.
- Mission to P4P in the field with WFP USA president Rick Leach.
- Participation in the launch of the Triangle of Dignity project in Telemán with the participation of the President of Guatemala Otto Perez Molina.

**Key Partners:** Howard G. Buffett Foundation, Canadian International Development Agency (CIDA), BANRURAL, Catholic Relief Services (CRS), DISAGRO, FAO, Inter-American Institute for Agricultural Cooperation (IICA), International Maize & Wheat Improvement Center (CIMMYT), Ministry of Agriculture (MAGA), National Institute for Agricultural Commercialization (INDECA), Institute for Agricultural Science and Technology (ICTA).

## HONDURAS

|                         |               |
|-------------------------|---------------|
| <b>FOs</b>              | <b>23</b>     |
| <b>FARMERS</b>          | <b>11,372</b> |
| <b>% WOMEN</b>          | <b>23</b>     |
| <b>CONTRACTED (MT)</b>  | <b>20,643</b> |
| <b>TOTAL VALUE (\$)</b> | <b>13.6 M</b> |
| <b>TRAININGS</b>        | <b>540</b>    |
| <b>PARTICIPANTS</b>     | <b>27,055</b> |
| <b>PARTNERSHIPS</b>     | <b>22</b>     |



- 55 technicians from P4P, DICTA/SAG and INA are being trained to implement field schools by El Zamorano University.
- PROMIPAC has signed an agreement and started the training program
- 110 ECAs (Agricultural Schools) -on crop development -have been established .
- The agri-business and the agricultural extension certified studies were concluded.
- Meeting with representatives of the ACESS/USAID to discuss for FOs partnerships in Gracias, Lempira.

**Key Partners:** EUFF, Howard G. Buffett Foundation, CHOOPACYL Credit & Savings Cooperative, CRS, FAO, Government of Honduras, IICA, IFAD/PROMECOM, INA, Ministry of Agriculture, National Agricultural Development Bank (BANADESA), DICTA, National Institute for Professional Formation, Prolancho Foundation, SAN Coalition Network, UN Women, FAO, SAN Red Coalición.

## NICARAGUA

|                         |               |
|-------------------------|---------------|
| <b>FOs</b>              | <b>10</b>     |
| <b>FARMERS</b>          | <b>2,100</b>  |
| <b>% WOMEN</b>          | <b>30</b>     |
| <b>CONTRACTED (MT)</b>  | <b>2,743</b>  |
| <b>TOTAL VALUE (\$)</b> | <b>1.06 M</b> |
| <b>TRAININGS</b>        | <b>863</b>    |
| <b>PARTICIPANTS</b>     | <b>13,264</b> |
| <b>PARTNERSHIPS</b>     | <b>14</b>     |



- Meeting with FUNICA to explore the potential collaboration to provide technical assistance to 450 FO members.
- FUNICA and UCA provided technical assistance on business plans to ACADIS FO.
- P4P implemented a three-day long training in soil testing at the Agricultural School of Zamorano.
- Meeting with INTA to extend the partnership agreement until 2014.
- Meeting with IICA, as part of Red SICTA (SICTA Network) to identify activities to improve production of maize.
- Meeting with Swisscontact to identify a potential cooperation in the FO's training processes on Strategic Planning and Marketing of agricultural products.
- P4P organized a training on financial and administrative concepts with technicians from FOs .

**Key Partners:** Howard G. Buffett Foundation, FAO, Food Technology Laboratory (LABAL), IICA, International Regional Organization for Animal and Plant Health (OIRSA), Ministry of Agriculture, Nicaraguan Institute for Agricultural Technology (INTA), UCA.



This month we interviewed Dominique Villeda, a business specialist at the Inter-American Institute for Cooperation on Agriculture (IICA), and key partner in the P4P farmers' organization categorization process in Honduras.

**From IICA perspective, why is the FOs' categorization/classification needed?**

P4P organizations have very different characteristics and capabilities, so indicators to assess, compare and group organizations of similar development of their business are needed. This categorization is considered quite important in developing proposals/suggestions to support FOs in providing grains processing services. IICA conducted two types of FOs diagnosis: (i) organizational and managerial capacity diagnosis, (ii) infrastructure, post-harvest management and available processing services diagnosis.

**Dominique Villeda,**  
Business Specialist,  
IICA Honduras

**What criteria do you consider more relevant for an FO categorization?**

The objectives of the organization, size and state of development of the association, participatory processes for decision-making and execution, communication and transparency mechanisms, change in leadership, legitimacy and credibility, structure and organizational management and entrepreneurial capacity.

**What are the main challenges of the organizations' classification?**

An FO diagnosis is a picture of a particular period of time and based on information collected in a short period time. This makes it difficult to check the information received from associations' representatives. The absence or lack of updated documents makes it difficult to verify the information collected.

**How can valuable and accurate information of different classification criteria be collected?**

Through personal interviews with FOs' representatives, administrative staff, partners, customers and P4P staff, focus groups discussions to share opinions, review of supporting documents (financial statements, manuals, annual reports, etc..), technical and financial audits, physical inspection of facilities, and participation as an observer in the general assembly.

**According to IICA, what exit strategy should be considered to move FOs to a sustainable agricultural business model?**

- ◆ The exit strategy should be carried out gradually over a period of at least 2 years in order to provide appropriate FO technical and administrative support to ensure higher volumes of high quality grains, the ability to negotiate and fulfill contract commitments, and the achievement of revenues for the cooperative and individual farmers
- ◆ Implement capacity development programs for leaders allowing generational shift and board of directors' renewal
- ◆ Demand annual audits and share results with members after a certain working cycle
- ◆ Set up monitoring activities
- ◆ Facilitate internal communication processes
- ◆ Institutionalize participatory and transparent processes
- ◆ Promote FOs' partnerships to support basic grains programs (i.e. FAO Agrochains, DICTA and SICTA Network)
- ◆ Evaluation of the results against objectives

|                             |               |
|-----------------------------|---------------|
| <b>BENEFICIARIES</b>        |               |
| FARMERS' ORGANIZATIONS      | 118           |
| PARTICIPATING PRODUCERS     | 27,930        |
| % WOMEN                     | 37            |
| <b>P4P PURCHASES</b>        |               |
| TOTAL CONTRACTED (MT)       | 45,335        |
| TOTAL VALUE (US\$)          | 24.6 M        |
| % OF TOTAL PURCHASES        | 30            |
| TOTAL COST SAVINGS FOR WFP  | 3,078,135     |
| <b>CAPACITY DEVELOPMENT</b> |               |
| PRODUCTION                  | 1,166         |
| POST-HARVEST MANAGEMENT     | 844           |
| AGRIBUSINESS MANAGEMENT     | 579           |
| M&E                         | 38            |
| CREDIT                      | 245           |
| FO CAPACITY BUILDING        | 342           |
| WFP/P4P PROCUREMENT         | 63            |
| GENDER                      | 92            |
| OTHER                       | 28            |
| <b>TOTAL</b>                | <b>3,397</b>  |
| <b>TOTAL PARTICIPANTS</b>   | <b>92,048</b> |
| <b>PARTNERS</b>             |               |
| GOVERNMENT INSTITUTIONS     | 37            |
| UN AGENCIES                 | 8             |
| PRIVATE SECTOR              | 10            |
| NGO                         | 30            |
| OTHER                       | 19            |
| <b>TOTAL</b>                | <b>104</b>    |

**Months Ahead:**

- Forum focused on School Feeding Programs (Brazil Government-FAO), 11-13 September, Santiago de Chile.
- P4P Regional Coordinators Meeting CA.
- P4P Participation on the 70th IICA Anniversary, 8 October, San Jose, Costa Rica.
- Regional Workshop with IICA and SE CAC within the framework of Connecting Smallholder Farmers to Markets Initiative, Nicaragua (middle October).



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