Rural Productive Partnerships

An Inclusive Agri-business Model for Overcoming Small-holder Market Barriers[1]

September 2012

Synopsis. *Rural productive "partnerships" bring commercial buyers together with producer organizations. The overall purpose of the partnership is to increase incomes and employment for rural producers through their participation in modern supply chains. The approach creates favorable conditions and incentives for buyers and small-holders to establish mutually beneficial relationships by ensuring consistent production of a particular quality, delivered reliably. Producers can overcome market barriers and gain stability through consistent and higher prices while buyers receive consistent supply of goods of a particular quality. This profile describes the types of partnerships, their benefits, and factors that contribute to their sustainability. Future rural productive partnership projects should build upon the lessons of earlier projects such as involving financial institutions such as commercial banks from the beginning of the project as well as working with the buyers in order to sustain and scale-up activities when project funding comes to an end. In the future, a good approach may be to emphasize the value chains in which the producer/buyer partnerships operate in order to remove constraints, promote opportunities for promising subsectors, and help roll out the partners hip model on a national scale.*

[1] Marie-Hélène Collion, Lead Agriculturist, LCSAR (Latin America and Caribbean region, Agriculture and Rural Development), World Bank. The graphics are from C. Paolo De Salvo (JPA, LCSAR).

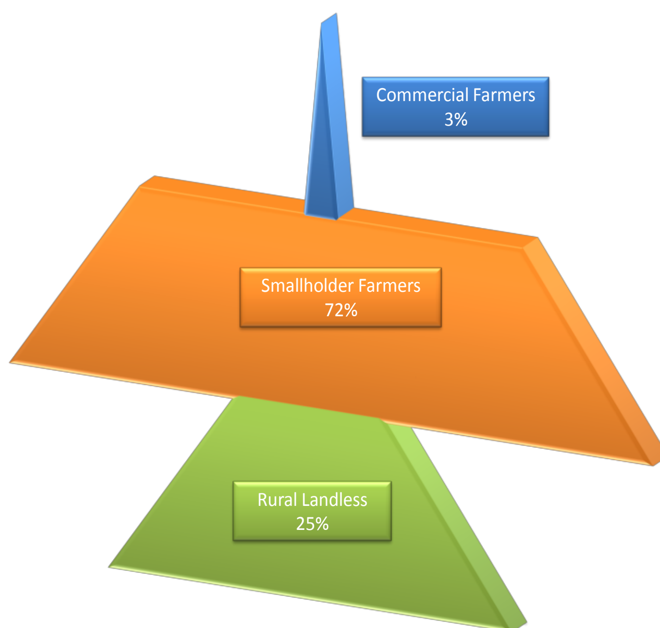
Table of Contents

CHALLENGES, CONSTRAINTS AND OPPORTUNITIES FOR SMALL-HOLDER PRODUCERS 3
LESSONS LEARNED AND ISSUES FOR WIDER APPLICATION 13
SCALING-UP THE APPROACH 17
References and Further Reading 20
Annex 1: List of Productive Partnership Projects in LAC 21

CHALLENGES, CONSTRAINTS AND OPPORTUNITIES FOR SMALL-HOLDER PRODUCERS

The bulk of the rural population is made up of small-holder producers[2], but there are wide differences within this group. Small-holder agriculture – including crop and livestock production, but also artisanal fishing and forestry is the basis for livelihood of most rural population around the world. In Latin America, it is estimated that small-holder family producers represent about 72% of the rural population, while large scale commercial farmers are only 3 %, with the rest of the rural population, 25%, being landless, either working as agricultural laborers or involved in activities other than agriculture.[3]

Figure 1. Distribution of rural population in LAC (Data from 12 countries, 2008)



Within this large group of small-holders, there are wide differences in terms of access to land, labor, capital, knowledge and natural resource endowment. Thus the potential for making a reasonable livelihood out of agriculture production differs greatly from one household to the next, distinguishing three types of small-holder producers: Small investor producers (9% of the rural population), subsistence households (43%) and in between, a group of small-holders that

[2]We use the term producer rather than farmers to include households that dedicate themselves to livestock raising, artisanal fishing or forestry

[3] Wiggins, Steve. "Agricultural Development Policy: where and how it can make a difference". Calculated using data from Berdégué and Fuentalba 2011, FAOSTAT data on rural population in: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Nicaragua, Paraguay, Peru & Uruguay.

we call "producers in transition" for lack of a better term (20%) (Figure 2: Small-holder Producer Typology)[4].

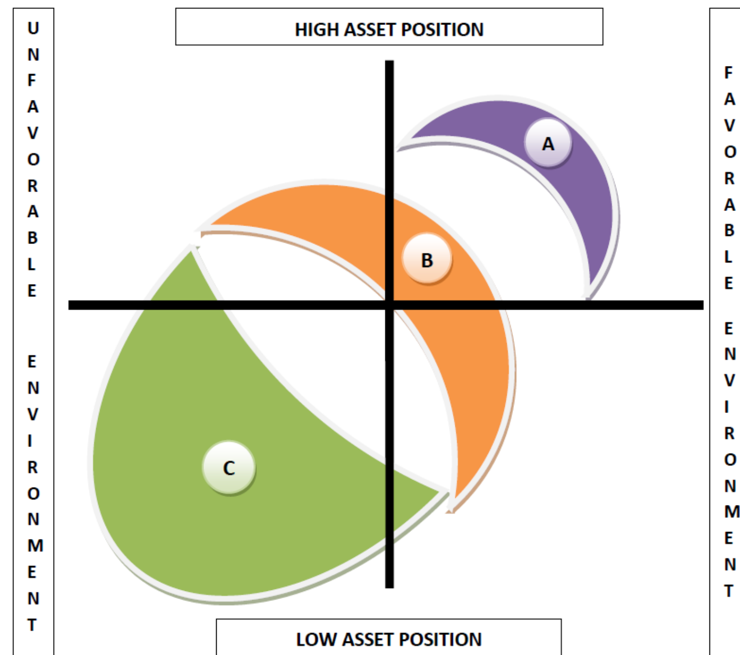
- *Small investor producers (Group A)* They have assets, they can access markets and are operating in a favorable natural endowment. They can produce and commercialize competitively, and make a reasonably good living out of agriculture, without having to rely on off-farm employment.
- *Subsistence households (Group C)* On the other end of the spectrum are the subsistence households: they have limited assets, tend to operate in unfavorable agro-climatic environments, with limited market access due to poor infrastructure that drive transport costs up. A large share of their income originates from off-farm labor, migration and remittances. Though their farm production constitutes a complement that can become critical for the survival of the household in times of crisis, as evidenced during the 2008 financial and economic crisis, it cannot possibly become the economic mainstay of the household. In fact the next generation of these households is likely to move out farming all together.
- *Small-holder producers 'in transition"(Group B)*. In between these two groups are farmers who are struggling to make a reasonable living out of their farms. They are better-off than subsistence farmers (as to their assets and resource endowments). They have the potential to successfully engage in modern agri-food markets, but the constraints they are facing in so doing are severe. ***These producers are the beneficiaries of the support to rural productive partnerships.***

Constraints faced by "transitional" small-holder producers. These producers are usually selling in bulk, in open-air markets or through farm-gate intermediaries. Some of them have attempted to become providers in "modern" marketing channels, with end-buyers such agro-processing industries, export enterprises and supermarkets. However, they lack critical assets, be it knowledge, finance, equipment and infrastructure and/or organization. They also cannot afford to take the risks that launching into new ventures would generate, be it investing in agricultural innovations or targeting new markets.

Indeed, agro-processing industries, export enterprises and supermarkets have stringent procurement requirements: they require large quantities of consistently high quality goods that meet sanitary and phytosanitary standards and are delivered on time. Due to the limited scale of their production, high transaction costs, and inability to provide consistent quality goods, small holder farmers cannot meet the requirement of these buyers. In addition, small-holders are faced with asymmetry of information regarding markets. Their lack of knowledge of distribution channels, prices and product characteristic requirements undermines their ability to negotiate with buyers.

[4] Wiggins, Steve. *Op. cit*.

Figure 2: Typology of Small-holder Producers according to asset endowment and environment



Getting organized is the first step. To overcome these constraints, small-holders often get organized into associations or cooperatives (or any other legal form of collective action for economic purpose) which allows them to aggregate their production for sale. Working through their organization, producers achieve economies of scale and are better placed to ensure product quality as required by the markets. Pulling their resources together, they can also start addressing some of the other constraints they face, such as technical assistance for production or for managing bulk purchase of inputs and selling of output. However, they remain constrained by lack of financial resources, with difficulties accessing the formal banking sector, lack of information, and low bargaining power.

Inclusive agri-businesses: why would agro processing industries, supermarkets or exporters be interested in small-holder production? Whenever they can, "modern" buyers prefer to source from large scale commercial farmers who can ensure the delivery of large volumes of goods, of consistent quality and traceability, with secure timing. For certain commodities that require processing on the spot, they set up nucleus estates complemented by out-growers. Nucleus estates with out-growers work especially well for industrial crops around a processing plant (i.e. oil palm, tea, sugar, rubber). However, not all products can be produced by large scale commercial farmers or by nucleus estates. Some products are typically produced by small-holder farmers, coffee and cocoa for example. For others and depending on country

circumstances, small-holder production plays an important role in the overall supply, for example in the dairy and horticulture industry. In Guatemala, vegetables such as sweet peas and French beans for export can only be produced in the highlands, characterized by very small landholdings and no potential for establishing large commercial farms. Similarly in Colombia for blackberries. Some horticulture products are highly labor intensive, therefore small-holders working with family labor are in a good position to compete with large commercial farmers who have to manage a large pool of unreliable seasonal workers.

Additionally, given the growing demand for high quality food, (as a result of population growth and changing food habits) combined with resource constraints and climatic risks, agri-businesses are increasingly concerned with securing their sourcing though a strategy of diversifying their suppliers, building upon the potential of small-holders. They are also concerned with mitigating their risks: increasingly agro-processing firms combine production on their own estate, with sourcing from small holders, thus externalizing some of the production risks (for example for tropical fruits).

Additionally, social responsibility concerns are on the rise: "sourcing from small-holders locally" has become an attractive selling motto for supermarkets and export companies. With growing scrutiny of private sector practices, agri-businesses want to enhance their reputation for social responsibility. Foreign companies especially are keen to ensure a 'social license to operate" with the countries where they invest. Companies that buy locally, from local small-scale producers, enhance their image of being socially and environmentally responsible. This image helps to differentiate their products from mainstream products while meeting new consumer demands.

Beyond corporate social responsibility, the concept of "inclusive agri-businesses" or "creating shared value" is gaining momentum within the private companies[5]. Shared value is defined as "*policies and operating practices that enhance the competitiveness of a company while simultaneous advancing the economic and social conditions in the communities in which they operate*"[6] The World Business Council for Sustainable Development provides the following definition of inclusiveness: "*An inclusive business is one which seeks to contribute towards poverty alleviation by including lower income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits*"[7]. Companies such as Nestlé, Mars, Unilever, Sara Lee, Olam, Cargill or Heineken all are promoting business models that look for synergies between development goals and the company core business operation. Box 1 presents an example of the activities that Sustainable Harvest Coffee Importers undertakes as an inclusive agri-business company.

[5] Example of inclusive business platforms and their reports are: World Business Council for Sustainable Development (2010) *Vision 2050*; World Economic Forum (2010) *Realizing a new Vision for Agriculture;* International Business Leaders Forum (2010) *A World in Trust: Leadership and Corporate Responsibility;* Sustainable Agriculture Initiative Platform (2010) *Annual report*.

[6] Porter M. and M. Kramer, 2011. *Creating Shared value: How to Reinvent Capitalism – and Unleash a wave of Capitalism and Growth*. Harvard Business Review. P 6.

[7] World Business Council for Sustainable Development, 2010. *Vision 2050: The New Agenda for Business".* Geneva, Washington and Brussels.

Box 1: Sustainable Harvest' activities as an inclusive agri-business company (2011)

Sustainable Harvest Coffee Importers is a certified B Corporation: social and environmental values are incorporated into the company bylaws.

In 2011, Sustainable Harvest purchased $73.3 million worth of coffee from farmer organizations at a price that averaged $0.65 higher than the C market. For every dollar Sustainable Harvest earns from coffee sales:

- **1¢** is invested in training and capacity building at origin
- **91¢** is paid to the coffee cooperatives for green coffee beans

Coffee sourcing and importing activities are integrated with farmer capacity building and community development at origin. Training focuses on increasing productivity: in 2011, the company trained farmers in East Africa and Latin America to produce their own organic compost fertilizer and to use best practices for caring for coffee plants and combating pests and disease. Sustainable Harvest fosters a network of farmers who receive training and are responsible for passing that training along to their peers, using ICT (among other tools).

In December 2011, SH organized its annual Food Security Forum in Peru. The event attended by 70 women and agronomists focused on leadership skills and techniques to diversify farm production. Nineteen of the participants volunteered to form an extension network to train others in their communities in 2012.

Also in 2011, to help suppliers and roasters weather the price fluctuations, Sustainable Harvest conducted introductory and advanced financial risk management courses for 50 cooperative managers in Peru, Tanzania, and El Salvador. The participants learned how to negotiate open contracts to minimize risk and how to use futures to protect their investments.

SH organizes an annual event for the specialty coffee supply chain "Let's Talk Coffee" an opportunity for the supply chain actors to have open, face-to-face conversations to build long-term business relationships.. Participants gather to gain an understanding of collective, practical actions to ensure a future for specialty coffee. In 2011, the event focused on price risk management, quality calibration, and farmer income diversification: practical collective actions to ensure a future for specialty coffee.

Sustainable Harvest helps its producers to access credit from commercial banks, using their contract with SH as collateral.

Source: Sustainable Harvest Coffee Importers**.** *2011 Impact Report*.

PRODUCTIVE PARTNERSHIPS: DEFINITION, OBJECTIVES AND IMPLEMENTATION

Definition

A productive partnership is an agreement between formally organized producers, and a buyer. The agreement specifies:

- Product quality and characteristics, such as size and varieties to be produced.
- Quantity to be produced and bought.

- Delivery modalities: how the product will be delivered (i.e collected by the buyer of delivered by the producer organization), when, and in what condition (i.e in bulk or already graded and packed).
- Payment modalities and price determination criteria.
- The buyer's contribution, such as technical assistance, specific inputs, and arrangements for input reimbursement (for example, at the time of sale).

Why would governments support productive partnerships?

Recognizing the constraints faced by small-holders "in transition" to sustain an agreement with buyers, Governments with funds from the World Bank have been supporting these partnerships[8]. The objective is to help these producers become economically viable commercial small scale producers (Figure 3 below), thanks to agricultural activities that are a reliable basis for income and employment for the family, as well as a source of indirect employment generation through added-value at the local level. Public sector funding of private collective entities (i.e. producer organizations) is justified from the point of view of correcting failures in rural markets that hinder small-holders from intensifying and commercializing: asymmetry of access to services and information, difficulties of access to the formal financial sector and inputs. Seizing profitable market opportunities means high start up costs, taking on technological innovations that may be beyond the initial capacity of the small-holders, and dealing with unfamiliar markets: thus the corresponding high risks for small-holders and the main reason why they do not venture into high value markets. Through the support, Governments are sharing the risks with producers.

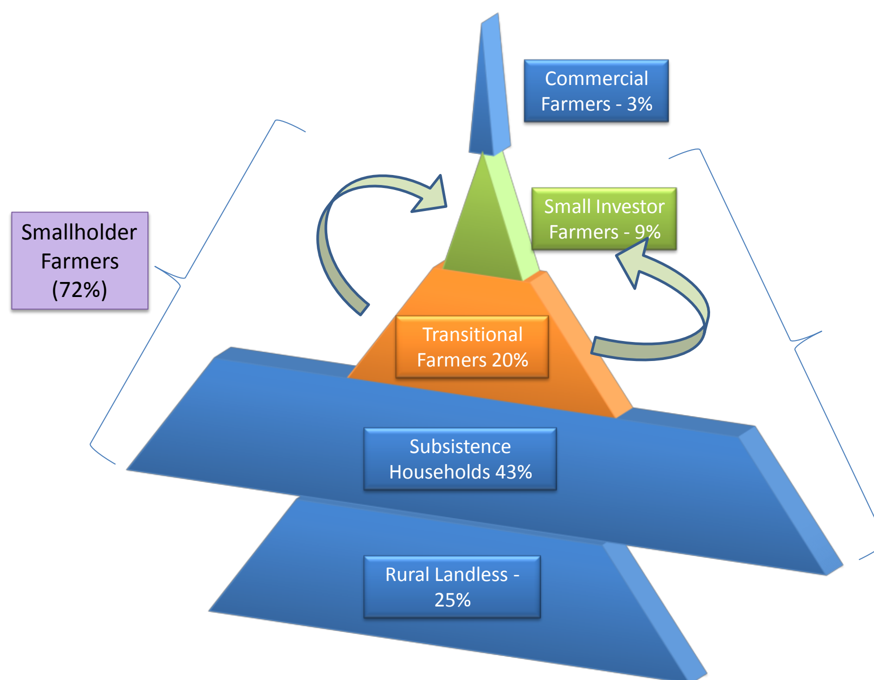
At the moment, the World Bank together with Governments is financing 16 projects or components within projects in 10 countries, some of them being a second phase project: Argentina, Bolivia, Brazil, Colombia, Guatemala, Honduras, Jamaica, Mexico, Panama and Peru (see list in Annex)[9].

---

[8] Subsistence farmers do not have sufficient assets to enter into productive partnerships and benefit from them. Their circumstances require other types of public sector programs. Support to productive partnerships programs are not intended for the poorest of the poor.

[9] Other donors, in particular IDB, are financing quite similar projects, some of them are in fact co-financed with the World Bank (i.e. in Guatemala). USAID is also financing productive partnerships, but only through technical assistance. IFAD is also moving in this direction.

Figure 3. Moving "transitional" producers to the small investor group: the objective of the support to productive partnerships



Productive partnership support cycle

Governments support productive partnerships on the basis of a Program housed in Ministries of Agriculture or Economy, or in a semi-autonomous agency. The cycle is as follows[10]:

• **Outreach** - An information campaign is launched about the objectives, process and rules for PP selection and funding;

• **Call for proposals-** An official announcement is published so that producer organizations (POs) wishing to access project funding can present a proposal;

• **First step: the business idea** - POs present a business idea based on market demand, a simple two page proposal;

• **Eligibility Criteria** – Eligibility criteria are applied to eliminate the applications that do not reflect the priorities or meet the requirements defined by the Program;

[10] Some projects have less steps. For example in Brazil, there are only two steps, combining the business idea with the profile.

• **Second step**. **Profiles** - POs whose business idea has been accepted prepare a profile, a document that describes their organization, the business to be developed, with expected benefits and costs, activities and investments to be funded and information on the buyer;

• **Selection of Profiles** - Profiles are evaluated and selected according to criteria established by the Program. A specific score with weight is associated with each criterion. At the end of the evaluation, the profiles obtain an overall score. An overall score cutoff is also defined. All profiles that get a score higher than the cutoff score pass to the feasibility study phase.

• **Third step. Financial, Social, Environmental and Market Feasibility Study** - The profiles selected have to demonstrate in a much more detailed document (business plan) that the partnership (sub-project) is feasible from a financial and market–demand point of view. The business plan has to show that if implemented, it will not have any negative impact from a social and environmental point of view. If it has any, the business plan must specify the mitigation measures to be undertaken;

• **Approval for Financing** - Proposals that are considered feasible are approved for funding;

• **Fourth step: signing of contract** - A contract is signed between the Program and the PO. The contract specifies how the funds are to be used (according to a plan of activities), procurement arrangements, outputs to be achieved and when, as well as several other details on the implementation and the supervision of the sub-project;

• **Fifth step: transfer of funds to a designated bank account and start of implementation** – The contributions of all those who fund the business plan, are paid into a designated bank account that PO opens for the implementation of the business plan[11].

Who funds productive partnerships and how are funds disbursed?

The Government contributes to the financing of the business plan with a grant to the PO, and the producers co-finance with their own resources, in cash or in kind- (with their labor or own material in case a construction is needed). Producer own resources can also come from a formal bank loan. Accessing formal credit is usually not a requirement under the majority of the projects. The case of the Honduras Rural Competitiveness Project is somewhat of an exception: it requires that producers come up with 40% of the cost of the business plan. Producers usually part of the 40% required from them, either from a commercial bank or through a credit from their buyer. The agri-businesses (buyers) contribute in the form of specialized technical assistance for production and inputs on credit, though none of the projects make it a requirement. In the Colombia Productive Partnership Project II, the Municipalities and the Departments also share some of the costs.

Once the PO has opened the designated account, Government funds are transferred to that account either in installments, based on evidence that the organization has used the previous installment according to the agreed upon plan of action and that expected outputs have been achieved. Most often, funds are transferred in one single transfer, but the account is jointly managed between the PO and the Program or a fiduciary agency. The funds are disbursed

[11] Not all projects require that the producers be organized formally. Some projects (Brazil) accept informal groups, with the objective that they will become formal along the way. The project will then help them obtain a legal status. In this case, and though not an ideal situation, the funds can be disbursed to individual accounts.

according to the plan of action of the business plan. When other entities such as municipalities, departments or NGOs are involved in the funding, which is the case of Colombia, they also have to transfer their funds to the designated account of the PO.

What is financed?

The funds for the productive partnership finance technical assistance for improving production and post-harvest for members of the producer organization. It also supports the producer organization in processing, management, and marketing. Individual and/or collective infrastructure or equipment can also be financed (such as individual irrigation equipment or collective storage and packing facilities) as well as startup capital for inputs to help small-holders overcome their initial financial barriers when dealing with commercial banks.

Results

As of June 2012, 2300 partnerships, benefitting more than 110 000 rural families have been financed. Investments in productive partnerships began in 2003 with the Colombia Productive Partnership Project I. As neither the Bank nor the Colombian government had any experience with this type of investments, this first project had difficulties to get off the ground: the first partnerships began to be financed only in 2005. The second project was the Bolivia Rural Partnership in 2016. Both countries are now implementing their second project. In the other countries, projects are more recent (Panama, Guatemala, Honduras and Jamaica) or are just starting (Brazil, Peru, Mexico). Hence most of the lessons learnt and outcomes so far are from the two first projects.

We witness the following:

For the producers *(Table 1: Example of Results : Bolivia Rural Partnership Project. Also Box 2: the case of ADINSE in Guatemala)*

- Under this approach, producers and their organizations are empowered: they define the objectives they want to achieve with the productive partnership and they manage the funds.
- Members of producer organizations have increased their technical skills, and at the level of the organizations, management skills and market intelligence is improved, even if the initial partnership between the commercial buyer and producer organization is not sustained.
- In some countries, producer organizations and their members have improved their access to the formal banking system.
- Women producers benefit. In Colombia, for example, 22 percent of the beneficiaries are women producers.
- The overall result is higher agricultural incomes and increased rural employment, especially for agricultural workers and women working in postharvest activities.

For the buyers

- Buyers secure access to products of consistently high quality. By providing improved inputs (seed, in particular) and training, buyers can obtain raw materials of the quality they require.

They meet the sanitary and phytosanitary standards that international markets require and that are increasingly important for domestic markets.

- Through the partnership, private companies invest in a community, which is a time-tested way for companies to secure producer loyalty.

Table 1: Example of Results: the Bolivia Rural Partnership Project

Product	#of partnerships with completed funding	% increase in production	% increase in sale volume	% increase in productivity	% increase in sale price
Crop production	75	264%	259%	98%	99%
Apicultura	7	133%	115%	29%	85%
Handicrafts	13	51%	45%	44%	25%
Salt extraction	1	101%	101%	117%	269%
Livestock	62	27%	11%	24%	48%
Aquaculture	1	181%	181%	0%	80%
Total/Average	159	126%	119%	52%	101%

These results (ex post/ex ante) were provided by the Bolivia Project Implementation Unit. They intend to carry out a rigorous impact evaluation during the last quarter of 2012 which should highlight impact on incomes. There is a need to systematically carry out impact evaluations for all our projects[12].

[12] The Colombia project had an impact evaluation, but the results are not reliable as there are some methodological flaws in the study. Other projects are still on-going and have not had an impact evaluation yet.

Box 2: A typical support to a productive partnership: The case of ADINSE, Guatemala

ADINSE is an association of 92 small-holder Mayan farmers in the highlands of Guatemala with 20 years of experience cultivating sweet peas, French beans, broccoli for export on very small parcels (0.46 ha on average) while producing maize and beans for home consumption on the rest of their farm. Their exporter is San Juan Export. In the past, they received technical assistance from AGEXPORT/USAID.

With the support from the Ministry of Economy/WB project, they were able to build a fully equipped packing house which, together with training in GLOBALgap and good industrial practices allowed them to deliver better quality produce, and instead of delivering in bulk, they deliver now selected, graded and pre-packed produce to their exporter, thus improving their position in the value chain. They also received training in financial management and record keeping to ensure produce traceability. One year after the end of project support, the results are as follows:

- 25% less product rejected by the exporter
- 6% to 12% increase in producer price (depending on produce)
- 45% increase in marketed production
- Access to formal credit to buy a small truck

LESSONS LEARNED AND ISSUES FOR WIDER APPLICATION

1. ***Difficulties of implementation through the public sector.*** In IBRD countries, the Productive Partnership programs are part of the regular budget of the ministries and follow public sector investment administrative rules, regulations, and controls, which can be quite cumbersome at times. The results can be delays and lack of flexibility that represent a serious impediment for the private sector/agri-businesses. Whenever it is possible to reach an agreement with the Governments, it is recommendable to look for implementation arrangements through a semi-autonomous agency or a public-private entity, with more agile implementation mechanisms.

2. ***The public sector has to play its role.*** To be effective, investments in productive partnerships depend on the public sector investing in public goods: rural infrastructure (in

particular roads and electrification), agricultural research, enforcement of regulations regarding sanitary and phytosanitary standards, enabling business environment, and logistics. There are many ways that the productive partnerships projects can and should build upon the government financed programs, in particular, for agricultural innovations. It is essential that the projects set up mechanisms to ensure that the productive partnerships that are being financed benefit from the knowledge and technologies that research institutions develop. In Colombia, for example, the project implementation unit and CORPOICA, the research institute, are organizing training sessions for the technicians of the service providers that work with the producer organizations.

3. ***Sustainability of the partnerships.*** A main risk of any partnership is that either the producer organization or the buyer will default. From the point of view of the producers, sustainability has been defined as the producer organization maintaining its position in a modern value chain after the project ended its support[13], and producers not having reverted to previous practices (i.e. selling individually in traditional markets at lower prices, but also lower quality standards). In Colombia, because the program has been implemented for almost 10 years, continuous record keeping after the end of project support has allowed to monitor the sustainability of the partnerships. About 30% of the partnerships proved to be unsustainable. The causes are varied. Often more than one factor contributes to the demise of a partnership, as follows:

(i) ***Producers revert to previous practices of selling in the traditional markets.*** Producers reverted to previous practices because there is a net benefit for them in returning to their traditional markets, despite having secured the buyer's partnership. The default arises when producers, owing to technical or managerial problems, cannot sustain the stringent requirements of high-value markets. Or because production costs increase beyond what could have been expected at the time of the feasibility study, thereby offsetting producers' benefits from participating in the value chain. Or in the case of export markets, because exchange rates become unfavorable.

Feasibility studies of a business plan need to more thoroughly and realistically analyze the risks: price risks (whether for inputs or products); climatic risks as well as the managerial capabilities of the POs to adapt to less favorable circumstances. On this last point in particular, feasibility studies often fail to analyze how the organization functions and its capacity to manage a partnership with a buyer.

(ii) ***Producers engage in side-selling, which can be linked to weaknesses of the producer organization such as: (i) lack of social cohesion and lack of communication/trust between leaders and members; (ii) the services that members expect are no longer provided once the project ends its support; (iii) lack of PO own financial resources to pay their members for their product on the spot and; (iv) lack of commercial and management skills of the PO.***

[13] In the Colombia Productive Partnership Project, the period considered for witnessing sustainability is two years after the end of project support.

- *The organization lacks social cohesion*. Producer organizations can be dysfunctional in various ways. Poor communication between leaders/representatives and members,[14] lack of trust between leaders and members, poor financial management and record keeping, elite capture, lack of capacity to manage conflicts and free rider problems, all of this will negatively affect the functioning the capacity of a producer organization to maintain its agreement with a buyer. In Colombia, lack of social cohesion and inability to manage conflicts are perhaps the main reasons that partnerships fail. This situation often occurred when the producer organization was encouraged to include additional members to make the proposed partnership more economically justifiable, but the added members weakened the social cohesion of the organization.

  Because the strength of the producer organization is a prerequisite for the success of the partnership with a buyer, it is important to identify organizational weaknesses early on and provide support during business plan implementation to improve organizational and management skills. In some cases, there is a need for additional support even after business plan implementation.

- *The producer organization cannot provide services to its members*. Producer organizations are often under social pressure from the rural community at large to make services accessible to nonmembers. Or they do not have enough financial resources to provide the services, for example the services of a veterinarian for a dairy cooperative. Producer organizations can provide services to non members if they have the financial capacity, but they should differentiate between members and non members though making non-members pay for the service or pay a higher price. It is crucial that there be incentives for members to be loyal to their organization (satisfaction with services rendered fosters loyalty) and thus continue marketing through the organization, so that contractual arrangements with the buyer can be maintain.

- Facilitating access to credit is perhaps the most important service that a producer organization can provide to its members. A number of projects help producer organizations set up a revolving fund. Members of producer organizations agree to repay to their organization a share of the grant they receive from the project. Technical assistance is typically not reimbursed. This repayment creates a "revolving fund," that the producer organization will use to provide credit to its members when project support is over.

- *The producer organization does not have enough financial resources to pay the producers immediately for their products*. Producers often need cash immediately. They cannot afford to wait until the organization sells the products of the entire group and gets paid by the buyer (which sometimes can be several weeks, such as in the aces of supermarkets, which can differ payments for up to

[14] This is a very frequently encountered problem because of differential levels of education between leaders and members, as well as distances and cost/difficulties of transportation that often prevent members from attending general assemblies and receive the information about the activities of their organization. However, with progress in ICT, this is becoming less of a problem.

90 days). They may prefer cash-on-hand, even if it means a lower price. Hence the importance of helping the producer organizations to set up revolving funds (see below).

- *The producer organization lacks adequate commercial or managerial skills*. Producer organizations also require the management, organizational, and marketing skills to provide quality services. In Colombia, sustainable partnerships often involve two-tier producer organizations: grassroots organizations and their union. The first-tier grassroots organizations are involved in managing production. At the union level, the organization deals with procuring inputs, marketing, and financing, with paid professional staff.

  To sustain participation in high-value markets, the producer organization needs to build its marketing skills. For example, the organization could benefit from a third-party market agent or broker to assist in breaking into particular markets. Productive partnership projects should consider establishing such brokers, whose role would be to scout the market for opportunities and identify the producer groups that can take advantage of them. These brokers should be private sector agents, and could continue providing some services to the POs even after the project ends its support.

(iii) ***Commercial failures.*** Partnerships may also fail for a number of reasons external to the producer organization themselves, such as higher than estimated production costs (in particular input costs rise), exchange rate fluctuations in the case of export, loss of markets due to new competitors' entry or mismanagement/bankruptcy of the buyer, resulting in producer discouragement.

The above difficulties highlight the necessity to provide capacity-building for the management of the organization. These aspects are often underplayed in the business plans: they focus more on the technical assistance for production and processing. In the Colombia Productive Partnership project, after several years of the implementation, management and organizational issues were recognized as so important for the sustainability of the partnership that a special program for entrepreneurial capacity building is being implemented as a complement to technical assistance for production and processing.

4. **Grant instead of credit? Or both? Or first the grant then the credit?** This issue of grant versus credit has been the subject of a continuous debate. Some people argue that the investments financed are essentially private goods that should be financed on credit and that the system of matching grants crowds out the financial sector. Without entering into this heated debate, there are various reasons why a government subsidy is warranted, which can be summarized as follows: (i) the investments in productive partnerships represent a continuum of public-private goods, where there is clearly a role for the public sector to intervene especially in a situation where governments have clearly identified

rural employment as a key component of their rural development strategy; (ii) small-holders are risk adverse and even if they have a title to their land, they essentially do not want to risk losing it, if used as collateral; (iii) they run into a number of constraints when trying to access formal credit. The results of the study conducted in Colombia and Brazil to investigate the issues faced by producers participating in partnerships when trying to access formal credit are sobering[15].

Though, producers are not required to access credit to co-finance their business plan, the productive partnerships projects should at least prepare them to access credit once project support is over if they so decide. The Colombia project is organizing a number of activities with the financial sector in order to bridge the gap between small-holders and commercial banks and help producer organizations learn to deal with the formal financial sector, such as: (i) sensitization/training for the POs and their members on commercial bank requirements to obtain a loan, with training provided by commercial bank officers themselves; (ii) organization of encounters "*ruedas financieras*" between the producer organizations and the banks at the regional level so that producers and banks become more familiar with one another.

In addition, some projects such as the Colombia one, are helping producer organizations to set up a revolving fund. The revolving fund is created with producers reimbursing part of the grant that they received from the project, i.e the part that corresponds to equipment and inputs. For a commercial bank, the fact that a PO manages a revolving fund constitutes an attractive guarantee of POs' good financial management, and even a collateral for obtaining a collective loan to increase the revolving fund.

Projects could also work with the agri-businesses and the banks to develop a triangulation approach to credit for certain products. The triangulation involves the agri-business, a commercial bank and the producer organization. The commercial bank provides credit to the producer organization to purchase inputs on the basis of a guarantee from the agri-business, thereby solving the collateral issue; the agri-business pays the producers for the delivery of the products in accounts established in the same commercial bank. The bank deducts the loan from the producers' account. Of course, this works for products for which side-selling is limited and when there is already trust built between the producer organization and the agri-business.

SCALING-UP THE APPROACH

After almost a decade of implementing rural productive partnerships in Latin America and the Caribbean region, and in spite of the satisfaction expressed by beneficiaries and governments alike, there remains a grinding doubt: are we implementing a "niche" model, resulting in a few islands of successes? One can argue that the 110 000 families which have received support

[15] See the report posted in LCSAR website: Luis Alberto Zuleta J. *Servicios Financieros para Pequeños Productores organizados en Colombia*, Febrero, 2012

through a productive partnership project, compared to the entire population of small-holders "with potential" in Latin America is a drop in the ocean. And even if governments enthusiastically request a second project (i.e Bolivia and Colombia), it is unlikely that after a second project, they will continue investing in such a program on their own[16]. Hence, the issue of scaling-up remains.

Implementing support to productive partnerships on a large scale is not only an issue of the amount of funding that the public sector is able to allocate to this kind of program, given the competing demands on public resources, it is also an issue of the approach itself which requires intensive technical assistance. Are there ways to adjust the model so that it be less heavy on public sector resources and less demanding on technical assistance? Above all, building on the concept of "inclusive agri-business" or "creating share value", can we induce more participation/appropriation of the approach from private sector companies?

Three avenues for scaling-up are proposed hereafter for further exploration: (i) making our projects effective public-private partnerships, involving agri-businesses in financing and provision of technical assistance much beyond their existing involvement; (ii) co-investing with second/third tier organizations; (iii) embedding the model within an overall value chain promotion.

- ***Agri-business involvement for up-scaling: designing effective public-private partnership.*** In a number of cases, though agri-businesses demonstrate interest in contractual arrangements with producers, their financial involvement to support POs remains limited: mainly in the form of technical assistance (to ensure product quality characteristics). In some cases, the involvement may be more substantial, when for example the buyer provides inputs on credit to be reimbursed at product collection time. We also noticed that when the buyers themselves propose partnerships, they are usually also bringing more resources. At this point, only the Colombia project has opened the call for proposals to agri-businesses, with quite interesting results: the contribution of the agri-businesses in these cases is about twice as much.

  The question is why there is not more buy-in from the agri-business side. Perhaps before they invest more in small-holder organizations, agri-businesses are waiting to have long term evidence that procurement from small-holders can work for them. Indeed, in Colombia, we witness much more buy-in from agri-businesses such as Alpina (a dairy product enterprise) or the Compania Nacional de Chocolate after having been involved with a number of productive partnerships for several years.

  Apart from this understandable reserve, we believe that one of the reason why there is still little appropriation from agri-businesses stems from the way that productive partnerships are introduced: it is a public sector-controlled initiative promoted with the procedures of the public sector, that is, lacking the agility that the private sector needs to take advantage of market opportunities. There is a also a need for the project implementation teams to be more agri-business-oriented, develop their public relation skills and approach the agri-businesses systematically in order to get them more engaged and to propose ways that they could contribute.

[16] There may be some exceptions: the Government of Colombia for example is planning to continue financing the program with its own resources.

Perhaps, in addition to the calls for proposals and in parallel, what the project teams could do is work with agri-businesses to formulate partnerships with several POs, i.e. a kind of an out-grower scheme, but with producer organizations instead of producers as individuals. If say 10 producer organizations of an average of 50 small-holder producers deliver their produce to an agri-business, then the volumes of sales reach a scale that has a definite impact on the procurement of the agri-business. In that case, one would hope to see greater participation of the agri-businesses to strengthen the capacity of the POs. And additionally, the possibility that agri-businesses would continue investing in the approach on their own even after the end of public funding.

- ***Scaling up through investing in/through second/third tier organizations.*** The PP projects work essentially with grass root organizations. The idea would be to include mechanisms to work with second-tier organizations and through them reach more grass root organizations than it is the case when the entry point is the grass root organization. This would allow conceiving the technical assistance for a group of POs, all producing the same product, thus reducing support costs. It would also be an entry point for the projects to work on improving and scaling up processing capacity at the local/regional while this is limited when working only with a grass root organization. In Honduras for example, the Rural Competitiveness Project is developing a sub-project with a packing and processing center that belongs to 11 small POs. In Colombia, the Productive Alliance Project II is working with the Federation of Coffee Growers to scale-up the transformation of coffee production from commodity to specialty coffee. The Project has begun to support the transformation but on a limited scale, working on a one-to one basis with grass root coffee cooperatives. The Federation wants to promote such transformation on a larger scale. The Project and the Federation will build upon the Federation organizational structure and the Federation's investment capacity to reach more grass root cooperatives.

- ***Scaling-up through supporting value chains where small holders predominate.*** Each productive partnership is a small-scale intervention. We see the need to conceive these investments within a supply chain to reach scale and design technical assistance and infrastructure that can serve more than one PO. In addition, the approach would enable to complement investments in productive partnerships with investments to improve the competitiveness of the entire supply chains that benefit small-holders. The objective would be to create better productive conditions—for example, by improving the quality of services provided to actors in the chain; improving the capacity of agencies that control compliance with sanitary and phytosanitary standards; supporting research & development, and innovation; addressing the administrative and institutional aspects of certification; promoting organic production or access to other high-value niches; and improving market intelligence. Productive infrastructure, trade facilitation services, and business environment are additional areas that could be addressed through a value chain approach. This emphasis could promote opportunities for promising subsectors and help roll out the productive partnership model on a national scale.

References and Further Reading

Collion, M.H., M. Lundy and P. DeSalvo, *Informe de Gira de Alianzas Productivas*, Medellin, 3-6 June, 2012

Fearne, A., D. Ray, and B. Vorley. 2007. *Regoverning Markets: A Place for Small-scale Producers in Modern Agrifood Chains?* Burlington, VT: Gower Publishing Company. See also http://www.regoverningmarkets.org/, accessed March 2011.

KIT, Faida MaLi, and IIRR (Royal Tropical Institute, Faida Market Link, and International Institute of Rural Reconstruction). 2006. *Chain Empowerment: Supporting African Farmers to Develop Markets*. Amsterdam, Arusha, and Nairobi. KIT, http://www.kit.nl/smartsite.shtml?id=SINGLEPUBLICATION&ItemID=1952, accessed March 2011.

Labaste, P., and C.M. Webber. 2010. *Building Competitiveness in Africa's Agriculture: A Guide to Value Chain Concepts and Applications*. Washington, DC: World Bank.

Porter M. and M. Kramer, 2011. *Creating Shared value: How to Reinvent Capitalism – and Unleash a wave of Capitalism and Growth*. Harvard Business Review.

Quintero, J.F. 2010. "Evaluación de la sostenibilidad comercial de las alianzas productivas en Colombia: 12 estudios de caso." Washington, DC: World Bank.

Sacristan, J., and A. Berdegue. 2001. *Cooperating to Compete: Associative Peasant Business Firms in Chile*. Amsterdam: Wageningen University.

WAGENINGEN Center for Development Innovation, "From Islands of Successes to Seas of Change: What Works When Scaling-up Inclusive Agri-Food Markets?" Conference in the Hague, The Netherlands, April 11-13, 2012.

Wiggins, S. "Agricultural Development Policy: where and how it can make a difference". Presentation at the Wageningen UR Centre for Development Innovation Conference "From the Islands of Success to Seas of Change: what works when scaling up inclusive agri-food markets?" The Hague, The Netherlands, April 11-13, 2012.

Woodhill, J., Guijt J. Wegner, L. Sopov, M., 2012. *From Islands of Success to Seas of Change: a Report on Scaling Inclusive Agri-food Markets,* Center for Development Innovation, Wageningen University and Research Center.

World Bank. 2007. *World Development Report 2008: Agriculture for Development*. Washington, DC. Chapter 5 and 6.

World Business Council for Sustainable Development, 2010. *Vision 2050: The New Agenda for Business".* Geneva, Washington and Brussels: World Business Council for Sustainable Development.

Annex 1: List of Productive Partnership Projects in LAC

Colombia Second Rural Productive Partnership (P104567)
Guatemala Support Rural Economic Development Program (P094321)
Honduras Rural Competitiveness Project (P101209)
Peru Sierra Rural Development Project (P079165)

Peru Additional Financing to Sierra Rural Development Project (P127801)

Argentina Socio-economic inclusion

Bolivia Rural Alliances Project II (P127743)

Bolivia Rural Alliances (P083051)

Bolivia Rural Alliances (P111863)

Panama Rural Productivity Project (P064918)

Jamaica Rural Economic Development Initiative (P105122)

Mexico CONABIO Sustainable (Green) Production Systems and Biodiversity – (P121116
Brazil Rio de Janeiro Sustainable Rural Development (P126684)

Brazil Para Integrated Rural Dev (P082651)

Brazil Parana Swap

Brazil São Paulo Sust. Rural Development and Access to Markets Project (P108443)