

# Engaging with farmers' organizations for more effective smallholder development



## Module 3: Support to farmers' organizations business models

### Farmers' organizations



## Originator

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## Module 3.

# Support to farmers' organizations business models

### Introduction

A business model is a means by which a farmers' organization (FO) structures its resources, services and collaboration with members, stakeholders (traders, suppliers, public and private sector), clients and partners to create and capture value.

To strengthen business models for FOs so that they are in a better position to benefit from market opportunities, attention needs to be focused on three areas: (i) FO access to financial resources; (ii) economic services for FO members; and (iii) FO partnerships with other stakeholders in the value chain.

This module addresses these areas and, through case studies, reviews a range of FO business models adopted by IFAD-supported projects/grants or by other FOs and partners.

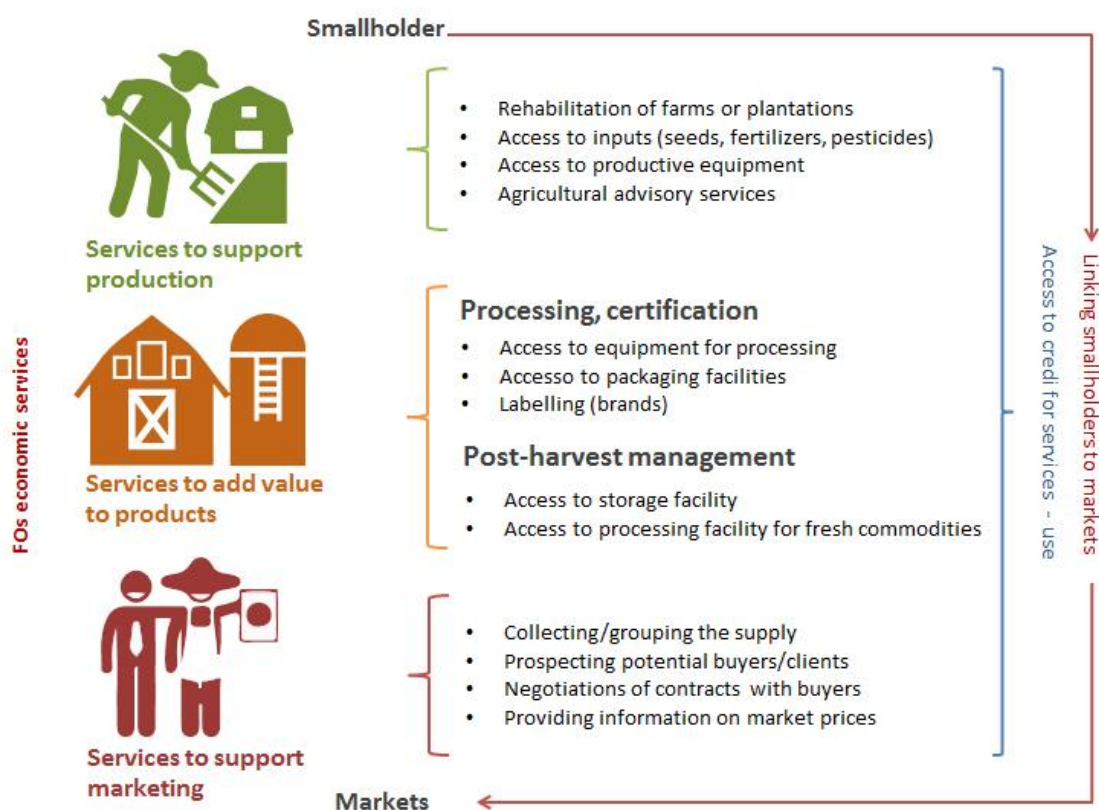
### Access to financial resources

Lack of access to finance is one of the main constraints FOs face when developing economic services for their members. Investments are needed at the start of the farming season, for example to buy input supplies. Medium-term credit is needed so that equipment can be bought for production and processing. Financing is also needed for revolving funds to support bulk marketing of members' produce and other services. Establishing or strengthening links between FOs and rural finance institutions is therefore fundamental in ensuring primary financing of economic services such as the following:

- **Advance payment mechanism to support smallholders' access to inputs.** FOs can set up advance payment systems – funded by loans from financial institutions – that allow members to pre-finance their inputs before production and marketing begins. Members estimate the volume of produce that will be sold through the FO and receive advance payments in two tranches: one during the first week of the farming season and the other when the produce is delivered to the FO (see Box 1 for examples in Burkina Faso and Mali).
- **Warehouse receipt system.** This system enables farmers to secure loans and thus gives them the opportunity to earn a better income from what they produce. Farmers or FOs store their produce in a warehouse in exchange for a voucher. The voucher can then be used as collateral to obtain funding from a rural finance institution (a bank or a microfinance institution [MFI]). The warehouse receipt system is still not sufficiently developed in some countries of Africa because of the lack of adequate storage facilities and funding agencies willing to scale up their engagement in this type of activity (see Box 3, on the experience of Burkina Faso).

FOs that develop integrated business models (including all steps within the value chain: input provision, collecting, processing and marketing) for high added value chains, can also invest any value added through the processing stage in providing services for their members. Success has been achieved in this area by the *Coopérative agricole et agroalimentaire* (COPAG) in Morocco (see Box 5).

For FOs that enter into public-private-producer partnerships (4Ps), the private sector can be a source of funding in kind (for example, provision of inputs on credit and technical assistance), as well as making advance payments on contracts (see Box 11, the example of Liberia).



## Economic services for smallholders

Economic services are activities provided by FOs that have a direct impact on securing production, adding value to products, improving market access for smallholders – and consequently improving their incomes (see the How To Do Note of this toolkit for more on economic services and their classification, and examples taken from IFAD-supported projects). They include:

- **Services to support production.** These services are designed to help smallholders to improve productivity through rehabilitation of planting material, better input access, more farm mechanization and improved farming techniques passed on through advisory services.
- **Services to add value to products.** These services are developed by FOs to help smallholders to earn more from their products through value addition. This can be done through the provision of storage facilities so that produce does not have to be sold at harvest time when prices are at their lowest, and/or processing facilities so that raw materials, which have much less value, do not have to be sold. This can also be part of a quality improvement strategy to add value through product certification, which will enable smallholders to obtain better prices.
- **Services to support marketing.** The overall purpose of marketing services provided by FOs for their members is to secure sales at better prices and limit the risks linked to price volatility. FOs are particularly useful because they can bulk members' produce, giving them more bargaining power so that they can negotiate better contracts with buyers. FOs can also pass on information about market prices to members. Marketing services can include promoting members' projected output and collecting/aggregating produce from members in order to regulate market supply and improve the chances of successful sales.



## Partnerships and relationships with other value chain stakeholders

Partnerships are important for FOs wanting to link their members to markets. FOs need to contract with service providers both upstream and downstream, for example, for input supplies and marketing. They can contract with public bodies for the provision of advisory services or to take advantage of institutional market opportunities. FOs can also co-manage existing private entities to foster market access, with various degrees of responsibility and ownership of shares. Finally, FOs can establish partnerships/relationships with other stakeholders in the value chain for policy dialogue purposes, especially entities such as local or national sector coordination groups.

## Farmer-driven processing/post-harvesting enterprises with FOs as shareholders

Several different business models have been adopted in which FOs are shareholders, including the following:

- **ESOP mechanism.** The main objective of ESOP (*Entreprises de services et organisations de producteurs*) is to improve production and local trading conditions by connecting producers to service providers. The mechanism was developed by the International Centre for Development and Research (CIDR) (*Centre International de Développement et de Recherche*), which set up enterprises in several areas: for example soya bean and rice processing units in Togo; dairies in Mali; trading services in Burkina Faso. The ESOP approach is designed to be: profitable, creating added value that is shared with smallholders; secure for smallholder investments, providing them with safe and regular marketing opportunities; sustainable in terms of technical, institutional and financial aspects, thus viable following a period of external support (see Box 9).
- **Investment-specific marketing strategy.** FOs sometimes organize marketing of their products around a specific investment (e.g. a cool storage room, a local market). They create or become involved in the management of such facilities with the objective of improving the organization and regulating the marketing of their products, thereby reducing the risk of losses and offsetting stiff competition from isolated buyers. For example, the Fouta Djallon Federation of Farmers (FPFD) in Guinea has developed a partnership with women traders who co-manage a cool storage room with the FO and ensure transport of potatoes to the cities and marketing (see Box 4).
- **Equity-sharing model.** Under this model, support is provided to FOs so that they can build partnerships with existing processing and/or marketing enterprises and hubs in which the FOs own shares and participate in the business strategic decisions. This model is usually undertaken within a public-private partnership in which a country's government, FOs and the private sector have a role to play (see Box 8, the example of Rwanda).

## FO engagement in public-private partnerships<sup>1</sup>

Within its portfolio, IFAD has supported three basic types of public-private partnership models:<sup>2</sup>

- **Formal contractual arrangements.** Private-sector companies work with small-scale producers under a range of contractual arrangements – such as outgrower schemes or contract farming – and form long-term commercial relationships with them.
- **Delegation of a particular function of the value chain to FOs.** Private-sector companies delegate the management of producer-owned primary processing centres to small FOs.
- **Joint ventures between private-sector companies and producers' groups.** New enterprises, with small-scale producers and private-sector companies as co-owners, are set up along part of the value chain (e.g. at the processing stage) or all of it.

<sup>1</sup> See IFAD/PTA toolkit: How to do public-private-producer partnerships (4Ps) in agricultural value chains

<sup>2</sup> Source: <http://www.ifad.org/pub/partnerships/ppp.pdf>

In addition, contract farming schemes exist in which private-sector companies establish partnerships with smallholders through their FOs. For example, in Senegal, a contract farming scheme between a private industry and the Tomato Producers' Federation has generated interesting results in terms of the increase in the price paid to producers (which rose from FCFA 32.1 in 1996 to FCFA 56 in 2011) and yields (which rose from 18 tons/hectare to 30 tons/hectare on average over the period), and has secured markets for producers.<sup>3</sup>

## FOs business models: case studies and a review of lessons learned

This section describes several FO business models that have been supported by IFAD and other projects. In particular, a series of case studies illustrate the following aspects: (i) the strategy developed by FOs within the business model; (ii) good practices and key success factors of these business models in relation to the three areas of intervention outlined above (access to financial resources, economic services for smallholders, and partnerships and relationships with other stakeholders in the value chain). Table 1 lists the case studies presented and indicates which of these areas are addressed.

Table 1. Case studies of business models in IFAD-supported and other projects						
Box no.	Business model	Area 1. Access to financial resources	Area 2. Economic services for smallholders			Area 3. Partnerships with other stakeholders in the value chain
			Services to support production	Services to add value to products	Services to support marketing	
1	Burkina Faso and Mali: UGCPA and Faso Jigi collective marketing systems	X	X		X	X
2	Senegal: ASPRODEB cooperative networks		X		X	X
3	Burkina Faso: COPSA-C inventory credit	X		X		
4	Guinea: Federation of Farmers in Fouta Djallon (FFFD) – services to support production	X	X	X	X	X
5	Morocco: COPAG integrated business model	X	X	X	X	X
6	Mauritania: GIE Intaj Adrar – market access for remote farmers				X	
7	Honduras: La Sureñita cooperative – quality improvement		X	X	X	X
8	Rwanda: Equity sharing for tea cooperatives					X
9	Benin, Burkina Faso and Togo: ESOP model linking service providers and producers			X	X	X
10	Sao Tome and Principe: public-private partnership for export crops	X	X	X	X	X
11	Liberia: partnership with private exporter	X	X		X	X

<sup>3</sup> Collectif Stratégies Alimentaires (CSA), Sécurité alimentaire et organisations intermédiaires: évaluation et identification des besoins de renforcement des capacités des organisations paysannes dans six pays de l' UEMOA et de la CEDEAO, Rapport pays Sénégal, 2011 (Available [here](#))

**Box 1a. Burkina Faso and Mali: UGCPA and Faso Jigi > the collective marketing system**

**Context.** Over the past 20 years, Faso Jigi in Mali and the *Union des Groupements pour la Commercialisation des Produits Agricoles* (UGCPA) in Burkina Faso have developed into professional and efficient FOs with the capacity to collectively market their members' cereals through a wide range of services and a strong organizational structure. In addition to the collective marketing system, they also provide farmers with advance payments, fertilizers bought in bulk and technical advice on improving yields.

**Definition.** The collective marketing system is a means of aggregating farmers' surpluses through their organizations and increasing their negotiating power. At the start of the farming season, farmers commit themselves, through their local farmers' groups, to delivering a given quantity of cereals. The development of the system was supported by UPA-DI (a member of AgriCord).

**Access to finance: the advance payment system**

**Faso Jigi** provides its members with access to inputs through an advance payment mechanism that is supported by loans from financial institutions (MFIs). Members indicate how much produce they expect to deliver to their local farmers' group and, on the basis of this projection, the FO makes available the advance payments as follows:

- The first advance payment corresponds to 60 per cent of the selling price of cereals (determined by the board of the Union) and is provided during the first week of the farming season. The selling price is based on a three-year average and current market prices. The FO can then buy agricultural inputs in bulk.
- The second advance payment represents 40 per cent of the selling price and is made available once producers have delivered the agreed quantities. The Union then sells the whole quantity purchased from its members. Both payments are funded by MFIs through a line of credit from the National Bank for Agricultural Development, among others.

**UGCPA** has created a marketing fund that can be used as a guarantee fund with financial institutions that provide credit to FO members. This way, farmers are supported by advance payments received at various stages of the farming season:

- Before the start of the farming season: delivery of inputs on credit (AP1 = advance payment 1).
- When farmers deliver cereal production to the FO, they receive another payment (AP2) based on the quantity delivered and the fixed buying price minus AP1 and its interest rate (which are paid back in kind).
- After the products are sold by the FO, which acts as a marketing agency, the FO reviews all the marketing and transaction costs (and other contributions that are discussed during general assembly meetings, e.g. contributions to a risk management fund), assesses the benefits and allocates dividends to members on the basis of quantity delivered.

### Box 1b. Burkina Faso and Mali: UGCPA and Faso Jigi > the collective marketing system

#### Organizational and management tools

- *Technical committees at the farmers' group level.* These committees aim to facilitate the marketing of members' produce through several steps: (i) assessing and validating members' commitments on quantities; (ii) assessing input needs; (iii) receiving and distributing inputs; (iv) aggregating production at the local level, checking quantity, quality, packaging and tracing the products; (v) credit recovery support; (vi) authorizing financial institutions to make advance payments (AP1 and AP2) into farmers' bank accounts; (vii) providing farmers with information on the balance at the end of the marketing period and the level of dividends..
- *Marketing committee at the FO level.* Appointed by the general assembly, the marketing committee is responsible for: (i) handling funding requests coming from the technical committees; (ii) setting the selling price at the beginning of the farming season (based on the past three years) and at the end (based on market price and trends for the marketing period); (iii) supervising and coordinating all marketing-related activities; (iv) marketing products by responding to calls for tenders; (v) providing the executive committee of the FO with the balance of the marketing campaign, propose the rate of dividends and present the balance during the general assembly; (vi) ensuring good communication on the marketing system among members.
- *Manual of procedures/administrative and financial management.* The manual is key to defining the roles and responsibilities of elected members and staff of the FO regarding the operating rules: commitments, advance payments, price setting, quantity and quality control, payback modalities and penalties if commitments are not met. It also contains useful templates (contracts, inventory records, etc.). Computer management and accounting software are highly recommended for transparency.

#### Partners involved

For Faso Jigi: cooperatives and their apex organization, input suppliers, traders, commercial banks and MFIs for input distribution through a central buying office, advance payments to farmers and group marketing of products. Support was provided by several partners, for example UPA-DI, a Canadian agri-agency.

For UGCPA: farmers' groups and their apex organization, MFIs, the *Société Nationale de Gestion du Stock de Sécurité Alimentaire* (SONAGESS), World Food Programme, UPA-DI, and others.

#### Key success factors

In the overall environment:

- Farmers are able to produce substantial surpluses
- Existing FOs are democratic and transparent
- Access to MFIs is available at the decentralized level
- Access to storage facilities is available

In the FO:

- Elected members are accountable and professional
- Running of the FO is democratic and transparent
- Decisions and actions are inspired by collective interest
- Members are committed to the FO
- Marketing fund is available
- Management mechanisms and tools are in place
- Contracting directly with farmers for delivery commitments, controlled by local authorities
- Technical committees exist in local farmers groups
- Ability to develop partnerships with MFIs, clients, public services, donors



## Box 2. A network of cooperatives producing certified groundnut seeds in Senegal

**Context.** Smallholders in Senegal are helping to meet the country's need for high-quality certified seeds by producing the seeds themselves. Supported by IFAD and by the European Union's Food Facility Fund, which was launched in response to the 2008 food crisis, a network of cooperatives was developed to rebuild Senegal's groundnut seed stocks.

The network, ASPRODEB (*Association Sénégalaise pour la Promotion du Développement par la Base*), provides the cooperatives with the following services:

- Support for sustainable management of cooperatives
- Training in good agricultural practices and monitoring of use
- Marketing of production
- Support for transparent management of cooperatives.

Before the beginning of each agricultural season, the network organizes a meeting to enable each cooperative to discuss its seed requirements, and negotiate and sign a contract with another cooperative that can meet the needs identified.

**How the cooperatives work.** The functions of a cooperative of certified groundnut seed producers range from managing production to collecting and storing produce, and marketing. Management strategies include:

- **Contracting with cooperative members.** The cooperative signs a contract in which the producer undertakes to meet seed production specifications, deliver all output to the cooperative and pay back any loans that have been granted. The cooperative buys all members' yields. Any producer infringing the contract with the cooperative faces sanctions. For example, a producer selling seeds in a parallel market may be removed from the cooperative or even face prosecution.
- **Training.** Training in production techniques is delivered in partnership with research institutions and state-run technical services in order to increase the capacity of producers to produce certified groundnut seeds. ASPRODEB provides managerial skills training.
- **Supporting access to financial resources.** Cooperatives are required to set up credit files with the banks to finance production monitoring and seed collection and marketing campaigns. Each cooperative calculates its funding needs for marketing on the basis of projected yields. The cooperative director develops a credit file based on projected yields and operating costs; marketing costs are thus integrated into the different items of expenditure and a projected statement of income. Assistance from ASPRODEB and the Lever Fund (a credit fund provided by the Food Facility Fund) established at the Caisse Nationale de Crédit Agricole du Sénégal (CNCAS) makes it possible to mobilize funding. Cooperatives are expected to be able to secure credit three times higher than the guaranty fund.

**Box 3. Burkina Faso: piloting inventory credit in support of COPSA-C**

**Context.** The Coobsa Agricultural Service Provision Cooperative (COPSA-C) is a third-tier FO operating in south-western Burkina Faso. It has approximately 3,000 members organized into three storage cooperative unions (cereal banks using the warehouse receipt system) and five rice producer unions. COPSA-C's mission is to increase its members' agricultural incomes and improve their food security. Since its creation in 2009, COPSA-C has supported its members in: (i) obtaining access to inputs and composting techniques; (ii) agricultural training; (iii) purchasing, processing and marketing of paddy rice, in collaboration with the rice producer unions and a group of women steamers; (iv) implementing a warehouse receipt system to ensure optimal use and management of local agricultural production.

Financed by IFAD with a grant from the Italian Supplementary Funds, the Rural Business Development Services Programme (PROFINDER) was launched in 2008 in five regions of Burkina Faso (South-West, North, Centre-East, Hauts-Bassins, Boucle du Mouhoun). In the context of this project, the Italian NGO CISV – *Comunità, Impegno, Servizio Volontariato* (Community, Engagement, Voluntary Service) – introduced inventory credit in the South-West region in collaboration with COPSA-C. After more than five years of implementation, it is clear that the scheme has made a significant contribution to the farmers' livelihoods.

**A key success factor** has been the excellent functioning of the COPSA-C and its ability to establish a trust relationship with the local microcredit institution, the *Réseau des Caisses Populaires* (RCPB).

Today, the inventory credit scheme is operated autonomously by COPSA-C, in cooperation with the Departmental Unions of Cereal Storage and Marketing Cooperatives and Cereal Banks. Quantitative data on the six campaigns implemented so far are summarized in the table below.

**Table: Quantitative data on the evolution of the inventory credit scheme at COPSA-C**

Campaign	Bags stocked (100 kg)	Cereal banks	Participants	Amount of credit (EUR)
2007-2008	419	3	113	4 873
2008-2009	3 662	13	730	33 631
2009-2010	3 112	9	510	29 160
2010-2011	3 667	14	524	33 096
2011-2012	3 875	16	627	34 167
2012-2013	7 747	20	(468 women) 1 272	68 029

**Box 4. Guinea: Federation of Farmers in Fouta Djallon**

**Context.** The Federation of Farmers of Fouta Djallon (FPFD) was established in Guinea in 1992 with several missions, which include providing technical support to local producer groups and economic services to "unions" (second-tier FOs) and becoming involved in policy dialogue through advocacy. The main crops supported by FPFD are onion, potato and tomato.

**Services to support production.** FPFD has established an input supply system that has a central buying office and is able to provide seasonal credit. Farmers can request a certain quantity of seeds of their choice (onion, potato and tomato) and fertilizers. Repayments must be made before the end of July each year, which generally coincides with the end of the marketing period for the dry season.

- *Conditions for accessing this service:* membership of FPFD, payment of fees/dues, repayment of input credit on time, compliance with the rules of the FO.
- *Assessment of input needs:* input requirements of local farmers groups are listed by the unions, thus aggregated for the whole federation. Then FPFD negotiates purchasing from local suppliers and undertakes transportation to production areas. It distributes according to farmers' orders and indicates the value that the farmers must pay back at the end of the marketing period.
- *FPFD resources to finance input credit include:* mobilization of internal resources; marketing levies and membership dues; a revolving fund supported by donors and other partners; credit contracted from local banks; occasional credit from providers.

**Strengths**

- Improved input supply contributed to the achievement of better production results, leveraging of credit and securing of guaranteed producer prices. These three functions are interrelated and ultimately led to the success of the project.
- The federation's approach was strongly democratic, meaning that it was able to play a central role in coordinating and in setting rules that enabled the system to work.

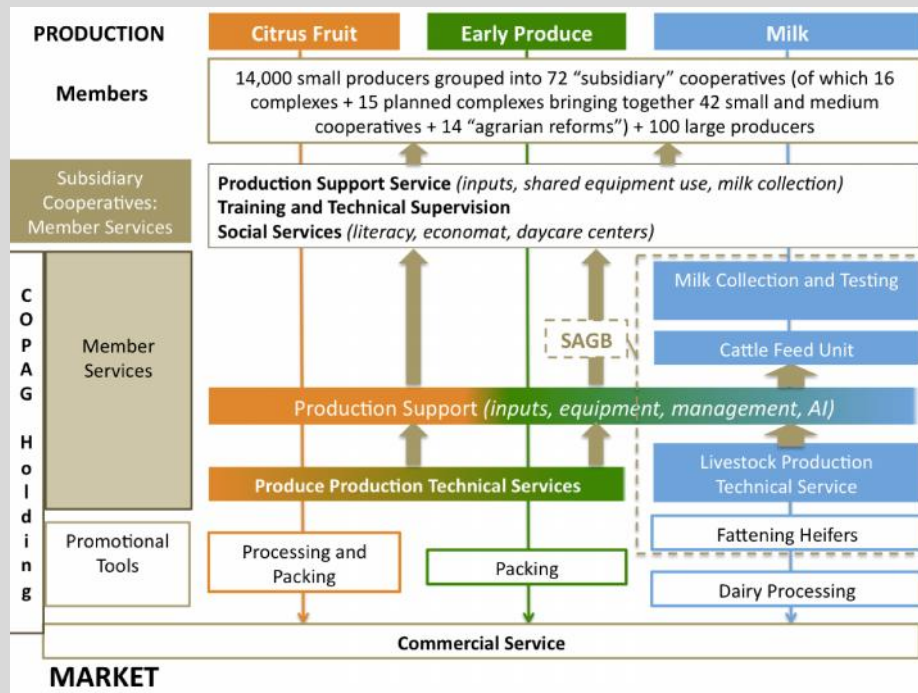
**Replicability**

- This doubly integrated model (structuring of the FO from local farmer groups to the federation and management of the value chain from production to marketing) is possible only with small or new value chains.
- Implementation of this model requires time and long-term support (10 years of support for FPFD and a significant financial contribution).

### Box 5a. Morocco: the COPAG integrated business model for dairy products

**Context.** COPAG, *Cooperative agricole*, is a farmer-based organization operating in the Souss Massa Drâa region of Morocco. It groups together 110 individual farmers and 72 subsidiary cooperatives with approximately 14,000 members engaged mainly in dairy production; it also integrates its members' multiple activities into the range of services it offers. While all COPAG members have access to the cooperative's services, large and medium-sized producers are most frequently individual members of COPAG and play a driving role. Small farmers form a majority within COPAG, with 80 per cent of the cooperative's members owning fewer than ten cows.

The overall structuring of COPAG is presented in the figure below.



Within COPAG, each level has a specific role to play:

- **Members:** ensure their produce is of good quality and deliver it to the subsidiary cooperatives/cooperative complexes
- **Subsidiary cooperatives/cooperative complexes:** provide services to members, such as milk collection and storage, shared use of agricultural equipment, mini-markets, training and literacy centres, provision of improved breed heifers; and transport milk collection by the COPAG holding
- **COPAG holding:** provides services to the subsidiary cooperatives, such provision of agri-supplies and technical supervision from the SAGB Cooperative, cattle feed supply (and/or directly to members), and ensures processing/packaging and marketing of products.

This business model enables the FO to control all stages in the value chain and offer producers a milk purchase price above the national average.

**Box 5b. COPAG : Success factors**

**1) An integrated business model** in which all stages of production, processing/packaging and marketing are covered in-house by the FO, with a clear division of roles and responsibilities among members, subsidiary cooperatives/cooperative complexes and the COPAG holding.

**2) A collective service offer for members.** Since it was established, COPAG and its subsidiary cooperatives have adopted the strategy of investing value added from processed products in “service complexes” run by the subsidiary cooperatives. These complexes are owned by the producers and allow members, especially small producers, fair access to the services offered. In this way, the subsidiary cooperatives and/or cooperative complexes are able to offer the following:

- Affordable, quality services, notably by buying material and equipment in bulk to lower the acquisition cost for members
- Constant professional technical supervision within the cooperative complexes
- Modern methods and resources.

**3) An economic growth strategy** based on:

- Investing in marketing and building a reputation for quality COPAG has invested in a large marketing system for its products and the development of its brand image. One of its key strategic decisions was to adapt its range of products to all categories of consumers so that it would be in a better position to meet consumer needs and increase its market share
- Modernizing production, processing and management technologies. To increase its members' productivity potential, COPAG invested in modernizing the services it provided in relation to production techniques (improved breeds, milking stations, silage makers, etc.) and storage/processing systems (cooling tanks, etc.). It also developed an integrated, computerized internal management system.
- Leadership, vision and capacity for innovation. Innovation is ongoing at COPAG, which maintains close ties with the research community for this purpose and to ensure the adoption of good agricultural practices (notably in relation to water management).

**4) Good management and governance.** COPAG also owes its success to the transparency of its management, the leadership of its elected officers, and good governance.

- Good governance comes from balanced skills among administrators and staff, and the fact that the administrators lead by example (one cannot give technical or strategic advice to members if one does not follow the same advice oneself). This is how confidence grows.
- COPAG's good governance also stems from the fact that a core group of “leaders” take on different strategic responsibilities in the subsidiary cooperatives and the COPAG holding. For instance, the chairperson of a subsidiary cooperative will also be the vice-chair of another cooperative and member of the COPAG holding's board of directors, and vice versa. This cast of trusted actors makes it possible to protect COPAG's good governance and provide the structure with stability.

**5) A vision: invest in human capital and tomorrow's members.**

- COPAG has invested extensively in the technical supervision of its members (most notably through the SAGB Cooperative) and in continuing education for its staff.
- One of COPAG's major areas of focus is investment in professional training for rural young people. Faced with school drop-outs, COPAG and its subsidiary cooperatives develop continuing education programmes for young people (with members' children a priority) to train tomorrow's members.

**Box 6. Mauritania: GIE Intaj Adrar to facilitate access to market for remote oasis vegetable producers**

**Context.** Palm dates cultivated in association with vegetables, particularly carrots, are the main sources of livelihoods for poor farmers located in the oasis of Mauritania. With the support of the Sustainable Oasis Development Project (PDDO), in 2011 farmers in the Adrar region set up an economic interest group (GIE Intaj Adrar) mainly to facilitate access to market for agricultural crops produced in remote and sparsely populated oases. To achieve this objective, GIE Intaj Adrar was appointed by its members to: (i) regulate and coordinate the quantity of oasis crops daily supplied to nearby urban markets; (ii) negotiate with wholesalers for pre-agreed farm-gate prices; and (iii) negotiate with carriers to facilitate the transport of oasis crops to market. After the first trial year in 2012, which was marked by limited buy-in from constituents, the GIE Intaj Adrar was particularly successful in mobilizing membership in 2013.

Market analysis revealed that the daily absorptive capacity of the main urban markets, one in Nouakchott and one in Atar, was 20 tons and 5 tons of vegetables, respectively. This information led the GIE Intaj Adrar to elaborate participatory and transparent timetables for the collection of quotas of crops within each oasis to be supplied to markets during the cropping season. By providing a well-defined quantity of vegetables to be supplied to the targeted markets, GIE Intaj Adrar successfully avoided glutting the market with vegetables during the peak production periods. It also significantly improved the conditions under which the main oasis crops are now delivered to markets by negotiating on behalf of smallholders with traders, wholesalers and carriers for pre-agreed farm-gate prices. In addition to levelling the commercial power balance between smallholders and traders, GIE Intaj Adrar has contributed to ensuring regular and predictable access to urban markets.

The GIE Intaj Adrar interventions also seems to have contributed to increasing the farm-gate prices of vegetables produced by smallholders. Owing to the intervention of GIE, the going farm-gate price stabilized at 70 UM/kg in 2013 compared with 32.5UM/kg in the previous year, while the area under vegetable production rose by 44 per cent from 285.9 hectares to 411.4 hectares between the 2011 and 2013 agricultural seasons.

The organization's interventions are also proving to be effective in attaining the longstanding objective of reducing the predominance of carrot and promoting greater diversity of vegetable crops in the oasis. According to PDDO, the rate of carrot monoculture has decreased from 80 per cent to 72 per cent of cultivated areas in the oasis of Adrar as predictable market access is stimulating the cultivation of other high-value vegetables.

The two main challenges for GIE are to consolidate its roles and functions in promoting a regular supply of oasis crops to urban markets and to move upstream in the crop production decision-making process by playing a greater role in the regulation of areas under production while taking into account sustainable availability of water resources.



### **Box 7. Cooperative “La Sureñita”: focus on services to improve quality**

**Context.** *La Sureñita* (the little southern one) is a cooperative set up in 1985 within the Azacualpa community in Choluteca, Honduras. It is formally known as *Cooperativa Regional de Producción Agropecuaria La Sureñita* (COREPROSUL). It started with five groups of women initially supported by the German Friedrich Foundation. Their focus was the processing of cashew nuts (*marañón*). They currently have 98 members: 59 women (11 under the age of 30) and 39 men (all over the age of 30). They are part of a value chain as producers, processors and sellers of their product on national and international markets.

**IFAD supported** their business plan through: rehabilitating 130 acres of cashew nuts and establishing 20 new ones, in order to achieve a 50 per cent increase in production; delivering technical assistance for the production stage; rehabilitating the processing plant, improving pipeline workflows and securing hygiene standards; improving environmental safeguards; increasing sales margins for the processed product; and promoting the involvement of young members in productive initiatives, in particular greenhouse facilities.

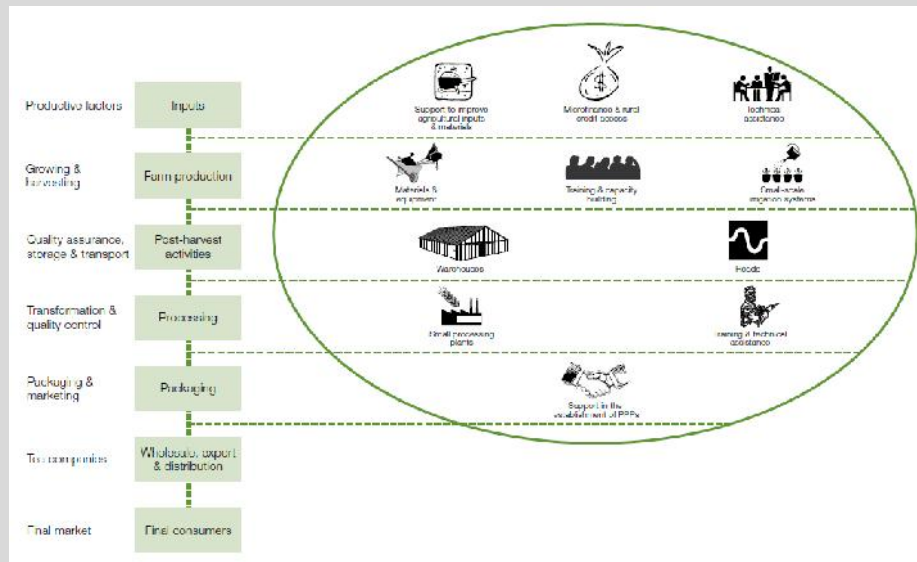
The cooperative is well organized, in which the women mainly are in charge of processing and industrialization, and the men, usually their husbands, are the landowners and producers. This has enabled the cooperative to achieve impressive results:

- **Development of new services for its members.** (i) *La Sureñita* established a partnership with GEPA, one of the world's leading fair trade organizations, to market its product. Following the expansion of the business after 2012, the cooperative entered into a commercial relationship with Pure Ground Ingredients, a worldwide organic and fair trade products wholesaler based in the United States. (ii) *La Sureñita* has benefited its members through better buying conditions for the cashew nut production for further processing. The cooperative gives producers direct financing in advance of the crop cycle, which allows them to grow corn and beans to improve their food security.
- **Accountability opens the door to further financial support.** *La Sureñita* not only was able to attract financial support from the IFAD-supported *Emprendesur* recently and from the Friedrich Foundation, the German Technical Cooperation Agency (GTZ) and the Instituto para la Cooperación y Autodesarrollo (ICADE) formerly, but is currently accessing funds from local private financial services providers in order to increase its working capital and expand its business further.
- **Participation in community development.** The cooperative co-invests in the communities' water services, electricity, roads, bridges, sports facilities, houses, education scholarships, and security, while endeavouring to ensure good environmental practices in its area.

### Box 8. Rwanda: Supporting tea factory shareholder cooperatives within a public-private partnership

**Context.** With support from the Smallholder Cash and Export Crops Development Project (PDCRE), tea cooperatives worked in partnerships with private investors to establish tea factories in the districts of Nshili and Mushubi in Rwanda. IFAD also enabled two tea cooperatives (COTHENK and COTHEGAB) to become shareholders in the tea factories that buy their green leaf tea.

The figure below illustrates the support IFAD provides at each stage of the tea value chain.



The role of each partner within PDCRE were as follows

- The private sector invested around US\$1.4 million as equity in the company and mobilized debt financing of approximately US\$4 million. The average investment cost for a tea factory is between US\$ 5 million and US\$8 million.
- On behalf of cooperatives and through PDCRE, IFAD purchased 15 per cent equity shares (worth US\$250,000) in the Nshili Kivu Tea Factory and the Nile Tea Company in Mushubi. In Nshili, the project also helped COTHENK to rehabilitate 225 hectares of tea plantations and a new industrial block of 222 hectares, and developed a further 295 hectares for small-scale tea-growers. In Mushubi, the project supported COTHEGAB in the planting of 700 hectares for small-scale tea growers. Project interventions also included capacity-building and institutional development.
- The government issued land leases to the private sector and cooperatives operating on the tea sites. It also invested in rural feeder roads where factories were established. Additionally, extension services were provided in the same areas by the National Agricultural Export Development Board (NAEB) although with limited resources (both human and financial).

The **main impacts of PDCRE** included: (i) larger volumes of tea sold and improvements in quality made; (ii) higher prices commanded (as a result of the new greenleaf pricing mechanism adopted by the Rwandan government, farmers' incomes increased by 11-40 per cent); (iii) employment opportunities created; (iv) long-term contractual arrangements put in place; and (v) access established to improved services, such as financial services, input supply, health insurance (access to health insurance increased from 28 per cent to 94 per cent).

**Scaling up and improving the business model.** After PDCRE completion, this model was replicated within the Project for Rural Income through Exports (PRICE), which has enabled cooperatives to buy up to 30-40 per cent of equity shares in factories to be built on four greenfield sites. PRICE benefits 14,300 tea-growers in both existing sites and new greenfield sites. The structuring of FOs and associations is supported from the greenfield to the national level. The *Fédération Rwandaise des Coopératives de Théiculteurs* (FERWACOTHE) consists of 18 cooperatives with 35,000 members and is divided into five unions. Specific financial and technical support will be provided to two cooperatives on existing greenfield sites and four cooperatives on new greenfield sites to improve their professional management skills, and with a view to their participation as shareholders in the processing plants.

### **Box 9. Burkina Faso, Benin and Togo: Examples of the ESOP model in operation**

The ESOP approach aims to create an alternative to food imports by promoting local products with a specific focus on quality. Each ESOP connects producers and processing entrepreneurs in two complementary ways:

- **Capital.** Under each ESOP, capital is divided into three equal parts: one returns to the FO, the other goes to the director and staff of the company, and the third goes to NGOs facilitating the establishment of the ESOP. The entrepreneur and the producers thus share the business strategy and the profits.
- **Contracts.** ESOPs contract with seed multipliers to grow quality seeds selected on the basis of urban demand. Seeds purchased by ESOP from the multipliers are then distributed on credit to producers in the network. The ESOP and the FOs also draw up a contract that specifies the conditions for the repayment of seed costs and fixes the price, quantity and quality of paddy rice that will be purchased by the ESOP at the end of the season. Producers are grouped for joint guarantee contracts.

**Services.** ESOP provide several services to agricultural producers, including the following:

- advisory services
- facilitation for access to fertilizers
- credit access
- processing, packaging, branding and marketing of product.

**Stakeholders.** The ESOP model is driven by the dynamics of two complementary sets of stakeholders:

- farmers who are trained and organized to become reliable economic actors
- market-oriented private companies that provide effective services to producers and process their products at competitive prices.

#### **Lessons learned**

- Strengths of the business model. The contracting of smallholder farmers is part of a “social and solidarity economy” approach in which the profits generated are distributed equally among the stakeholders.
- The viability of the ESOP system is based on the performance and professionalism of each stakeholder in the chain, on regular contracting transactions under fair conditions and on appropriate participatory governance practices.
- Dissemination and development of ESOP requires technical, financial and organizational specific support. The International Centre for Development and Research (CIDR) has therefore strengthened local NGO platforms (ETD - Business Territories and Development for Benin and Togo, and APME.2A for Burkina Faso) that promote the ESOP approach to support ESOP managers in their mission.
- Innovation. The funding mechanism is innovative in that it involves both investment capital (participation of NGOs as a start-up) and banks or microfinance institutions for seasonal credit.
- Replicability. The outcomes in the rice sector are relatively good (less so in the soybean sector), with high-value, urban market quality rice being produced and thus securing smallholders. The model could be applied to other sectors where: (i) processing and product quality is essential for market access; (ii) food production is already dynamic; (iii) margins can be made on the processing and marketing links in order to compete with imports. It could be used in the cassava and maize sectors, especially where there are units for corn-derived livestock feed.

### Box 10. Sao Tome and Principe: a public-private partnership for export crops

The Participatory Smallholder Agriculture and Artisanal Fisheries Development Programme (PAPAFPA) in Sao Tome and Principe is a public-private partnership between IFAD, the French Development Agency (AFD), the Government of Sao Tome and Principe, and five European private-sector partners (Kaoka, CaféDirect, Hom&Terre, Malongo and *Société Générale Equipment Finance* – GEFA), as well as the cooperatives supported by the programme (see figure below). Set up in 2003, this partnership is geared towards enhancing returns on investments in traditional agricultural value chains (cocoa, coffee, pepper and other spices) through organic and fair trade certification and partnerships with European buyers.

Structure of PPPs	
Smallholder farmers, purchasers, governments and IFAD play complementary roles in PPPs as follows:	
<b>Role of the private sector</b> <ul style="list-style-type: none"> <li>- Purchase farmers' products at fair prices</li> <li>- Provide technical assistance and sharing of know-how</li> <li>- Participate in providing required production inputs</li> <li>- Apply social and environmental principles in terms of prices paid, product characteristics, production and processing systems</li> <li>- Participate in producer financing via distribution and recovery of production credit</li> </ul>	<b>Role of farmers' organizations</b> <ul style="list-style-type: none"> <li>- Mobilize producers in order to reduce transaction costs</li> <li>- Provide technical support and access to production inputs</li> <li>- Oversee production and post-production to ensure application of agreed quality, quantity and timing standards</li> <li>- Manage any shared equipment or facilities</li> <li>- Provide aggregation, sorting, processing, packaging and transport as contracted</li> <li>- Support performance of members in accessing, using and repaying credit</li> </ul>
<b>Role of governments (with IFAD financing)</b> <ul style="list-style-type: none"> <li>- Finance technical assistance to collectively organize farmers</li> <li>- Provide infrastructure to facilitate market access</li> <li>- Ensure access to any required inputs, including credit, to maintain production standards</li> <li>- Finance equipment and facilities for farmers' organizations</li> </ul>	<b>Role of IFAD</b> <ul style="list-style-type: none"> <li>- Ensure timely availability of financing</li> <li>- Provide supervision and implementation support for increased project performance</li> <li>- Verify that treatment of farmers' organizations by purchasers meets PPP principles</li> <li>- Promote policy dialogue with public institutions for the development of enabling regulatory frameworks and legislation</li> </ul>

The main benefits to producers were: (i) up to fourfold increases in product prices; (ii) availability of resources to invest in the development of associations and communities; (iii) increase in the ownership of activities; (iv) upgrading of producers' technical and managerial skills/knowledge; and (v) overall development of their communities, with a decrease in rural-urban migration flows and revitalization of the rural economy.

The initiative was reinforced by the Strengthening Smallholders' Access to Markets for Certified Sustainable Products Project (SAMCERT). SAMCERT's goal is to support rural producers who are partners in IFAD projects in gaining an in-depth knowledge of the requirements and procedures of agricultural certification so that they are in a better position to access the certified products' market.

The main activities supported by these partnerships include the following:

- Undertaking scoping missions and analyses to determine producer organizations' potential and existing preparedness for sustainability certification (e.g. meeting requirements for Fairtrade, Organic, Rainforest Alliance, UtZ Certified, RSPO – Roundtable on Sustainable Palm Oil)
- Providing information, training and support on sustainable production methods, business management and sustainability certification
- Identifying potential private-sector partners and bringing parties together to set up partnerships
- Acting as intermediary in the initial stages of partnership development and implementation (by private-sector partners, producers and IFAD)

**Key lessons.** Introducing voluntary certification as a key element of such partnerships allows small-scale rural producers to manage their activities and products in a sustainable way and to have increasing access to dynamic markets. However, certification programmes present several challenges, including the cost of product compliance with the global market standards, especially for small-scale farms. Stiff competition from European products can also be a deterrent. Also, to qualify for certification, producers must understand the obstacles and manage competition factors. It is important to identify and balance investments for any certification process and the benefits that could derive from selling certified products on the market.

**Box 11. Liberia: public-private partnerships in practice**

In Liberia, a very promising public-private partnership was established between the Ministry of Agriculture, the Smallholder Tree Crop Revitalization Support Project (STCRSP) and the Liberia Agriculture and Asset Development Company (LAADCO), a private-sector exporter of cocoa and coffee.

This is an innovative partnership in which the public sector engaged LAADCO as a key implementing partner for the rehabilitation of an initial 1,000 hectares of cocoa and coffee smallholder farms (1 hectare per farmer). In addition, the private sector provides not only technical and extension services but also substantial cofinancing. During its first year of engagement with STCRSP, LAADCO cofinanced and invested more than US\$1 million to support smallholder cocoa farmers across three partner cooperatives in three districts. Investment has, for example, taken the form of:

- human resources, through building district teams of technical extension staff (technicians, agronomists and supervisors)
- vehicles (pick-up trucks and motorbikes) to support cooperative mobility and transportation
- provision of pre-financing as working capital for the cooperatives (US\$15,000 per cooperative, initially), enabling them to purchase cocoa from member and non-member farmers.

Most notably, as an exporter, LAADCO is a ready buyer and provides a market for cooperatives and farmers in the project intervention areas, which facilitates marketing. With better prices offered by LAADCO (10 per cent commission to cooperatives, as well as up to 50 per cent more than the price of middlemen, the only other real market option for farmers) and high absorption capacity, farmers have real incentives to improve their production levels so that they can increase their incomes by selling more. LAADCO is planning to establish agreements with the other cooperatives supported by the project. This, together with further rehabilitation, is expected to ensure substantial increases in the volume of cocoa produced and sold, with a significant impact in farmers' incomes. STCRSP is expected to support the rehabilitation of 15,000 hectares of cocoa or coffee plantations. LAADCO has committed US\$5 million to cofinance this objective.



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