

Enhancing livelihoods through market-oriented non-financial services

The example of the Programa Agropyme in Honduras

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The Programa Agropyme in Honduras uses a market-oriented approach to rural poverty alleviation. It aims at contributing to the improvement of livelihoods of small-holder farmers in marginal areas by enhancing the competitiveness of small and medium enterprises in selected agricultural value chains through strengthening non-financial services to these enterprises. This article describes the approach employed by Agropyme and provides an example of its application in the vegetable value chain of Honduras.



Women cooperative members grade and pack vegetables into plastic boxes.

General context

Like other countries of the Central American region, Honduras is seeking to invigorate its economy through strengthening the markets. At the political level, the government has a clear commitment to foster frame conditions that will allow the realization of this potential.

¹ *The programme Agropyme (Desarrollo de competitividad de pequeñas y medianas empresas agrícolas por medio de servicios no-financieros / Developing the competitiveness of small and medium agricultural enterprises through non-financial services) is financed by SDC and implemented by a consortium formed by the Swiss development organisations Swisscontact and Helvetas and diverse local partners. It was initiated in 2001 and is currently in its second phase.*

These conditions include priority of investments in rural areas and promotion of the competitiveness of small and medium enterprises in national and international markets.

Agricultural and forestry play an essential role in the country. Agricultural production contributes 21% of the GDP and is estimated to be the third important source of foreign exchange after remittances and tourism. However, subsistence production is the prevailing form of agriculture because of the geographic, topographic, socioeconomic and political situation. The rural population is suffering from severe poverty with 65% of the rural families being poor to very poor. Less than 30% of the current farm enterprises are considered to have good development potential, while only

4.5% are associative enterprises and cooperatives. This situation can be improved. Through better products, improved processing and marketing, Honduras could establish an important new source of revenue which would help in fighting the poverty afflicting so much of the rural population.

Every year, agricultural products with a value of USD 715 million are imported into Honduras. Fresh vegetables and fruits constitute 28% of these imports, some of which could be produced in Honduras with the availability of improved technologies such as irrigation systems, corresponding financing schemes, business relationships and the appropriate knowledge. Value-added products constitute a further 56% of total imports, mainly due to changes in consumer demands and limited national investment in agro-industry.

With CAFTA (Central America Free Trade Agreement), small and medium scale rural producers must overcome many constraints in order to enhance their competitive capacity. This is where the Agropyme program has its entry point. It helps them to compete successfully, which they can do by considering comparative advantages regarding prices, quantities, quality and processing, transport, etc. compared to the imported products.

Constraints and opportunities

The context analysis undertaken at the beginning of the program design stage and regularly revised during the project life identifies in a dynamic way the main bottlenecks:

- A difficult socioeconomic context: poverty, recessive GDP, increasing external debt, negative exchange balance.
- Widespread rural poverty makes market-oriented production difficult: survival has priority.
- Insufficient infrastructure, especially in the sloping areas where transport and communication are deficient.
- Weak financial systems.
- Credit systems are too expensive and primarily oriented towards marketing rather than processing; guarantees required to obtain credit in the formal banking system are lacking.

- Poor and unprofessional management of enterprises at the level of production and processing; know-how on themes such as marketing, packaging, development of new brands, image, and product shelf-life is insufficient.
- Lack of relationships between farm enterprises, service providers and buyers.
- Limited, unreliable information about prices, markets and credit.
- Weakly organized markets and a lack of clearly conceptualized national strategies to develop the markets.
- Weak consumer purchasing power and relatively little differentiation of consumption (which constitutes, at the same time, a potential for the development of new products).
- Awareness about and access to appropriate market-oriented advisory and other non-financial services for small and medium farm enterprises is very limited.

Despite this difficult situation, there are opportunities for the AGROPYME program:

- Honduras has comparative advantages in agricultural and non-timber forest products.
- The basic requirements and the political will for the development of the market economy exist.
- There is potential for the development of national and regional (Central America) markets.
- Awareness about the utility of non-financial services is increasing, and there are service providers with experience and high-quality products (some of whom are self-financed).

Rural producers are completely disconnected from higher value markets such as urban, regional and international markets. Their sales are often limited to middlemen who then sell mainly to low value local or urban wholesale markets in the main cities. The quality requirements of this channel are low and so are prices. Only if these producers reach higher value markets in a competitive way, they can hope to overcome their poverty in the medium and long run. To achieve this, producers must quickly overcome their key constraints.

Access to adequate market-oriented non-financial services (advisory and other) is a prerequisite for rural enterprises if they are to enhance their competitiveness. However in the rural areas of Honduras, the provision of such services is underdeveloped: on the demand side, there is hardly any awareness about these services, and on the supply side, lack of information and the high transaction costs limit availability of such services to small rural enterprises. Furthermore, the highly subsidized provision of such services by the government and the international development cooperation has resulted in a “no pay” mentality. Service providers have traditionally served agricultural support programs instead of producers and other rural enterprises. Consequently the cost and quality of services do not meet the enterprises’ needs and payment capacity.

On the other hand, demand for advisory and other non-financial services is increasing and there are some well-recognized service providers in the agricultural sector. There is also the potential for embedded services within the agricultural value chains: there are producers’ cooperatives, input suppliers and retailers that provide advisory services to rural enterprises.

Agropyme’s approach

Focus on demand for services

Initially the program expected to have to support the supply side of non-financial services², but it soon revised its strategy and centred its attention on encouraging the demand for services by rural and agricultural enterprises. This is based on the assumptions that these enterprises will demand services if they are aware of the constraints they face when competing in markets, and that they are willing to invest in non-financial services to help improve their profit margins.

The development of non-financial services must thus focus on satisfying existing demand in local, regional and international markets to achieve competitiveness of small rural enterprises. This focus requires identifying critical demands for services with a clear market

orientation. The services can then help small rural enterprises to overcome their constraints and meet these demands in a profitable, socially and ecologically responsible manner.

The program works along the following guiding principles:

Guiding principles

- The market as the entry point: Business options that offer real opportunities for income generation should be identified.
- Producers are entrepreneurs: Producers seek to improve their competitiveness by increasing their productivity and their profitability and improving their market position.
- Entrepreneurs are proactive: Only those who seek to innovate and who are risk-takers should be selected for support at the beginning of the relationship with producers’ associations.
- Associativity as the strategy for sustainability: The capacity to form associations is becoming more and more important for competing in regional and international markets (not to ensure high prices, but to be able to adjust flexibly to changes in markets and to develop local managerial capacities).
- Income generation as the central instrument to fight poverty: The possibility to generate income is the most important condition for poverty alleviation in rural areas.

Program partners

The partners of Agropyme’s efforts are principally cooperatives or associations of producers of honey, fresh vegetables, fruits, and other value chains with potential. The project focuses on linking these rural enterprises to dynamic markets and facilitates processes to develop competitiveness. The provision of value-chain embedded services through these organizations is important for overcoming the service provision constraints in rural areas. Furthermore, association membership is important for maintaining a market position in a competitive environment.

² *The Donor Guidelines on Small Enterprise Development and Business Development Services emphasise the need to strengthen the supply side when encouraging service markets.*

The cooperatives that Agropyme works with, include small and medium producers. However, the promotion of entrepreneurial attitudes and market potentials are essential for success, and this prerequisite requires working with pioneers in the beginning who are often not the smallest; later, if things turn out well, smaller and poorer followers are reached. Working with cooperatives allows Agropyme to reach out to many small-holder farmers.

Agro-industry firms, supermarkets, export firms and retailers are amongst the key stakeholders in the food value chain. They buy products from the rural enterprises if price and quality are right. These actors are also important providers of embedded services, especially the provision of market information. Through constant dialogue, a win-win situation for all the actors in the value chain can be sustained.

Program process

Programa Agropyme has developed a process that defines specific projects with small farm enterprises and their organizations aiming at enhanced competitiveness through an entrepreneurial attitude and demand-oriented services as the diagram below shows.

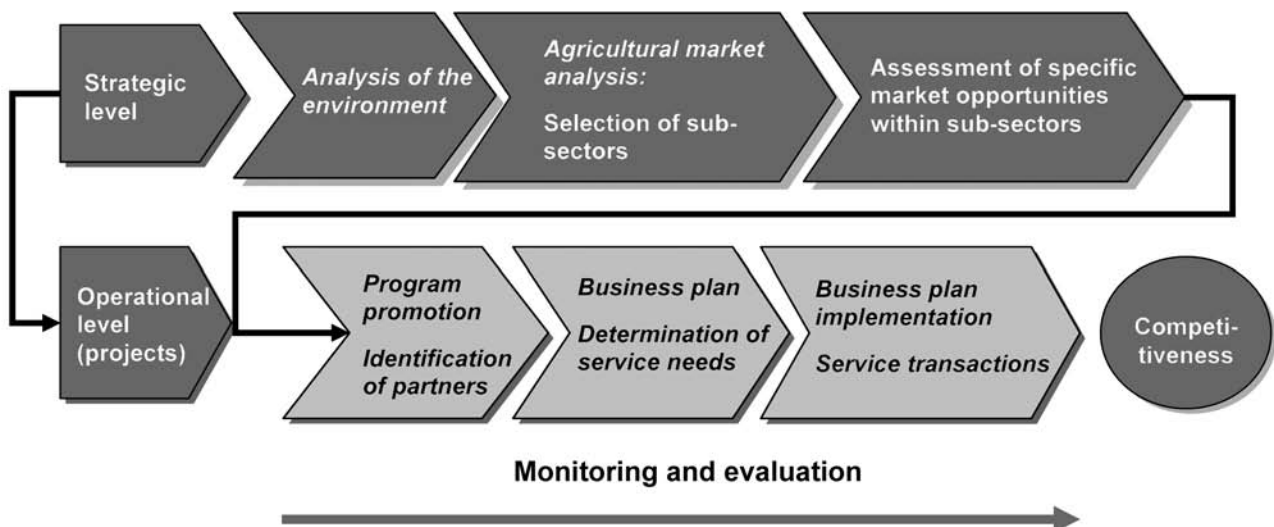
Once farmers have understood the market opportunities, and analyzed all elements they have to fulfil to satisfy the market, they start to determine and prioritize their service needs. The program supports this process. The approach has resulted in changes in the farmers' perceptions regarding meaning and utility of services

and their willingness to pay for them. It also increases the demand for new services, as the purchase of services is now seen as an investment, rather than a cost.

The program introduced conditioned contracts to match demand and supply of services: the service is only paid when it is delivered. Both contract partners, the enterprise and the service provider, jointly define the measures for service delivery and the mode of payment. It is important that the entrepreneur negotiates the modalities of the contract with the service provider, while the project limits itself to coaching (monitoring, feedback and methodological support). This way, the project avoids a situation in which the service provider sells its services directly to the donor at a too high price. At the same time, it ensures that the provider adjusts its offer to the needs of the clients, i.e. the farm enterprises.

In the whole process Agropyme plays the role of a facilitator: it encourages roundtables, develops concepts and instruments, organises analysis of framework conditions and markets, and provides advisory support. It does not directly engage in provision of services or credit to the program clients. It mainly works as a know-how hub that disseminates lessons, experiences and knowledge within a network of different actors (state as well as private).

The dissemination of AGROPYME experiences motivated other actors such as the Ministry for Agriculture to replicate the project approach. The project has established a broad network of about 60 actors (state



programs, private firms such as big retailers, super markets, export firms, and donor organisations to disseminate good practices. With this replication, the service providers gain new clients outside Agropyme. In this way the service providers are strengthened indirectly. The government organizes roundtables where the different actors of the sector come together to discuss and overcome constraints. If this coordination is successful, all actors will apply the same principles to develop the agricultural sector in Honduras.



A vegetable grower proudly shows his gourd production.

The example of the cooperative COHORSIL and fresh vegetables

This section illustrates the Agropyme approach using the example of the collaboration with a vegetable producers' cooperative. This example particularly demonstrates the following points:

- The kind of services delivered
- How service providers and clients relate to each other
- How innovations in services are up-scaled
- Insights and lessons learnt

Step 1: Market analysis and sub-sector selection

In order to know which sub-sectors have potential as an immediate income source for small rural producers, an agricultural market analysis was conducted focusing on two steps:

- a) Assessing factors related to market entry, considering demand and supply of different product categories.
- b) Assessing trade flows, profits and risks for small farmers in the local vegetable sub-sector.

Market entry assessment

The results of the market entry assessment show that fresh vegetables and fruits have a lot of potential:

- After Hurricane Mitch in 1999 export levels reduced drastically. Even by 2005, the export volumes were not up to 1998 levels.
- Agricultural imports grew constantly since 1991, especially the imports of agro-industrial products for processed food. This fact reflects changes in consumer habits over time, with an increased preference for processed and semi-processed products, whilst the local agro-industry has not responded to these changes.
- The processing sector is very attractive due to increasing demand. But when interviewing the few agro-industry enterprises in the country, they reported big difficulties in accessing local "raw material" such as fresh vegetables and fruits.
- Additionally, the increase in imports of vegetables and fruits was basically due to the demand of supermarkets that were unable to find local sources that meet their quality and timing requirements.

The value of imported fresh vegetables and fruits amounted to USD 143 million in 2001. To understand whether the vegetable sector could compete with the imported products, the final prices of the imported products were compared with the national ones. In this way, the program could identify different vegetables that had the potential to be produced locally for local markets.

Trade flow assessment

As a next step, the demand for the identified vegetables was assessed and mapped through a value chain analysis including all the channels and actors such as local and national wholesale and retail markets, middlemen, supermarkets, food services (restaurant chains, fast food, hotels), the processing industry, distributors and exporters.

Step 2: Identification of partner enterprises

The results of the market analysis provide the basis for the intervention design and the selection of partners. To reach out to the poor rural enterprises, organized producers' groups are identified – in this case, the cooperative COHORSIL was selected. COHORSIL has about 400 active members, each owning an average of 3 ha of land. The cooperative was originally (in the 1980s and 90s) active in the processing, packing and marketing of coffee. In 1997, when the coffee prices started to sink drastically, the cooperative decided to concentrate on the production of vegetables. However, they had problems with marketing. In 2001, Agropyme and COHORSIL began collaboration with the objective of increasing the revenues of the cooperative and therefore the income of its members.

To guarantee continuous supply, which is a precondition for contracting with large national retailers (and in the medium term also with exporters), efficient and effective technologies need to be introduced. Increasing sales improve the incomes and the number of jobs and thus the situation of the poor cooperative members. Moreover there is a multiplication effect through improved wages of day labourers.

Step 3: Business plan for COHORSIL

Every marketing channel has particular characteristics in terms of volume, profit margins, risks, quality and safety standards etc. This means producers must consider the farm level implications of their production strategies in terms of investments, new knowledge, technical capacities, inputs supply etc. for each business opportunity. A business plan considers all of these factors.

Agropyme supports business plan development and implementation at three levels:

1. The organisational/managerial level (e.g. in the development of business plans, including linkages with buyers and providers).
2. The production level (e.g. in the introduction of important technologies).
3. The level of value creation (processing, storage, branding, transport, marketing etc.).

Interventions at the organizational/managerial level: Promotion of non-financial services for rural producers

As a first step, service providers were selected through a tendering process. These service providers then analyzed the vegetable market, its value chain and the marketing of products on behalf of vegetable producers. In the beginning, the project subsidized services up to 70%. Based on the market analysis and with the continued support of tendered services, producers developed business plans. These plans addressed critical aspects of the vegetable value chain, and which services were needed. To implement their business plans, the producers again paid for consulting services.

It was essential that the project did not intervene in the service market, but rather facilitated its organization through tendering procedures. Together with the program, the cooperative supports its members in formulating the terms of reference for the service providers. After that, tenders are placed in an interactive database for service providers. The cooperative and its members then select the service providers and make the contracts directly with them.

Interventions at the production level: The example of irrigation systems

As it was recognised that the available financial services were not appropriate, the program introduced a rotating fund to improve the financing of technologies deemed crucial to improve the productivity of COHORSIL's members. The importance of this fund in implementing members' business plans is illustrated by the example of irrigation systems.

The introduction of new products implied an adjustment in irrigation technology. So far cabbage had been produced at low risk, but also at low productivity. More demanding products such as chilli can be produced with much higher yields, but only if the technology is adapted – an all-season irrigation system is needed. To finance this new system, small farmers could get credit from the cooperative. Agropyme made the initial payment for the irrigation system (an amount of approx. USD 30,000). Producers could then install the system at relatively favourable terms of interest and repay over a period of up to three years. Until all the instalments have been repaid, the cooperative retains ownership of the system as collateral. So far, all instalments have been paid back and the producers now own their irrigation systems, overcoming an otherwise difficult bottleneck in their business plans. Pre-selected service providers provided technical consultancy, materials and training through the entire process of introducing the new irrigation system. Producers must have an incentive to become the owners of the irrigation system so that the rotating fund is quickly recapitalized.

The new irrigation system is resulting in savings of both money and time:

- Production factors such as water and soil are used more efficiently. In addition, less fungicides and herbicides are used.
- The fixed costs of the irrigation system are initially very high, but reduce very quickly over time. Thus, capital costs are soon reduced and capital rotation is improved.
- The new irrigation system does not have to be moved at night, unlike the previous system, so time costs are reduced.

Now that the starting capital invested by Agropyme has been repaid, it is used for other investments to improve and increase the vegetable production of COHORSIL. For example, greenhouses have been pre-financed with the rotation fund. Salad can now be produced and harvested year-round, not just seasonally.

Improved agricultural production practices were another service demanded on the production side which was delivered by specialized suppliers identified by Agropyme.

Interventions at the level of marketing

At this level, the objective is to secure sales. One way is through direct contracting of individual producers by the agro-industry in sectors such as chilli/tobasco and onions. In this situation, the cooperative acts as a mediator between producers and the agro-industry. Another option is to deliver to supermarkets in Honduras' cities and to chilli exporters. This requires a warehouse to be able to supply these customers in time throughout the year. COHORSIL built and operated such a warehouse, funded by the European Union. Agropyme co-financed the costs for architectural design and construction supervision, as well as the creation and registration of a trademark for COHORSIL's vegetables. Again, pre-selected service providers specialized in trademarks provided advisory services during the process of establishing a trademark.

The warehouse has improved the logistical coordination of the entire cooperative. Production and distribution are now coordinated with the demand, and this has also resulted in improved information flow and coordination among the producers. In addition, the members of the cooperative now have know-how about production standards such as certification, quality standards (e.g. EurepGAP), pollution free production etc.

Outcomes and insights

For vegetable producers – increased revenue and competitiveness

The COHORSIL example shows how a development strategy based on the analysis of agricultural markets and trade in the region – in this case an import substitution strategy in the vegetable sector – and program interventions that are oriented towards the identified market potential can help farmers to deal with market constraints and successfully compete in challenging markets.

Productivity was increased and technologies adjusted in a strategic way that made it possible to access new market segments such as supermarkets and so increase the revenue earned from the vegetables. Despite higher production cost the net incomes have increased substantially, as the following figure shows. This may as an additional effect also improve the security of rural labour.

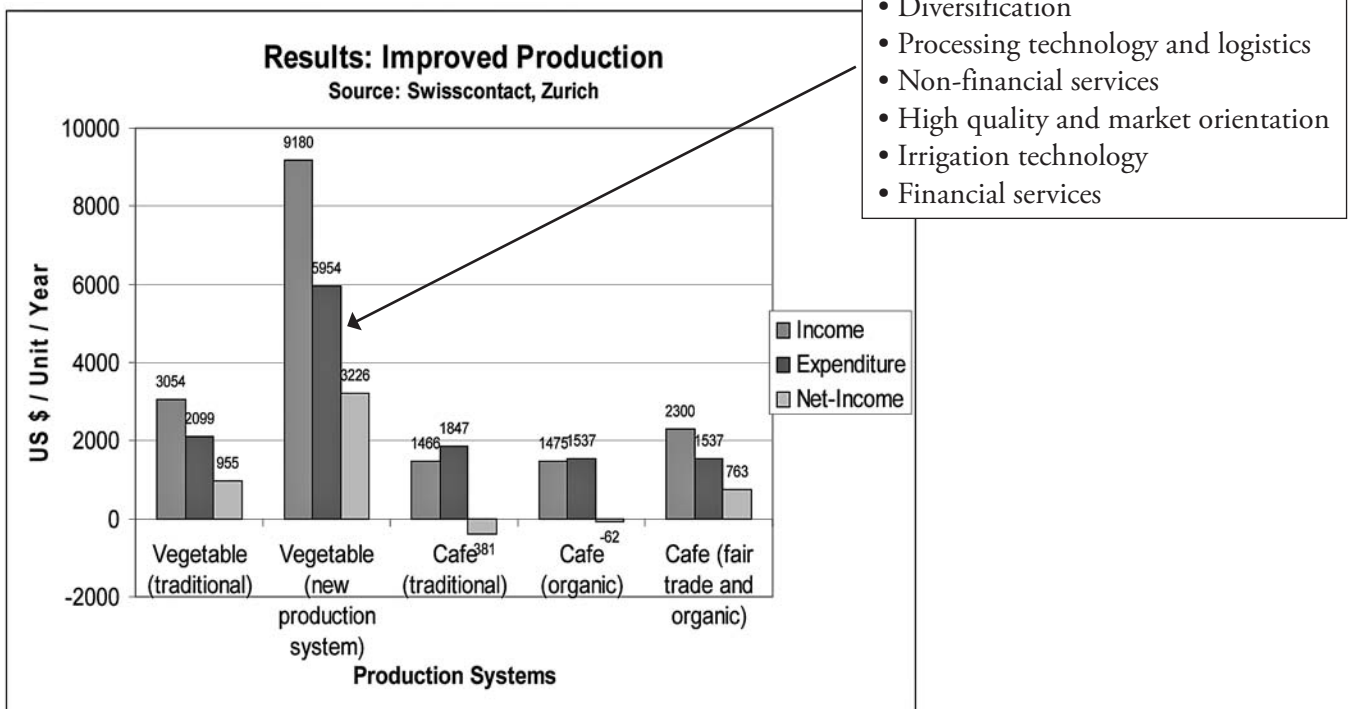
In addition to the substantial increase in net income from vegetables, the following outcomes were achieved:

- Relationships with retailers, including Wal-Mart Centroamérica, have been established.
- COHORSIL established a commercial relationship with AMANCO (an irrigation technology provider) to distribute their products in rural areas.
- Some service providers who received support from Agropyme are now offering services to a wider range of clients.

Some insights

- The COHORSIL example illustrates the role of market-oriented advisory and other non-financial services, which constituted the core of the Agropyme intervention. In this example, the services focus on the value chain for vegetables, either as transacted or embedded services. The main services provided were market analysis, consultancy

Improved production and net income



for the development of business plans, consultancy for the implementation of business plans, consultancy to identify and implement new production technologies and practices, consultancy for and implementation of logistical infrastructure, and consultancy for and implementation of trademarks and certification.

- The program is often asked about the role of retailers. Do they profit disproportionately from the interventions? Agropyme believes that all the actors of a value chain need to benefit when cooperation to improve competitiveness of small farmers is sought. Incomes of rural farmers can be increased sustainably only if win-win situations for all actors can be created.
- The most promising approach to improving the availability of non-financial services in rural areas is to utilise the potential of different actors in the value chain whose services are already present and embedded in the costs of the commercial transactions. For example, the cooperative COHORSIL provides its members with financial and non-financial services, including credit at low interest rates and contract negotiation with big retailers on national level. These services are included in the cost of the membership. As another example, retailers provide embedded services e.g. in the form of information on the price, quality and quantity of products demanded in urban markets.



Women engage in cleaning and sorting beans.

Agropyme as an external donor-established and -funded player takes on the utmost crucial role of a facilitator, adviser and intermediary between the local players. This raises the question how the successful approach of Agropyme can be replicated on a broader scale within Honduras. Of course, other donor interventions can adopt the approach and establish similar structures. But this still will not enable a really broad scale. The functions currently performed by Agropyme are services themselves that need to be widely available on a longer term in the country, and there is a need to build the capacity for these functions in local institutions or service enterprises. Agropyme ought to identify ways in which it can contribute to this; otherwise the impact of its excellent approach will always remain limited.