

PLANTING THE SEEDS



OF PEACE AND
PROSPERITY

Producer Organizations: Lessons learned and Best Practices

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Preamble:

Producer Organizations (POs) are membership organizations created by producers to provide services to them. They perform advocacy or policy functions (unions or federations), economic, and technical functions (cooperatives and associations) and sometimes-local development functions. Many POs tend to address the three above-mentioned functions to various degrees. POs are also very diverse in terms of scale: they can only be local entities (at village and inter-village levels), or be represented up to the regional and national levels (unions and federations). Functions and level of organization are often related.

Many of the world poor live in rural areas and agriculture or agricultural related activities are the mainstay of their livelihood. In most cases, the poor cannot make their voices heard. They cannot access services or means of production. One of the producers' strategy to draw themselves out of poverty, is to organize, to: (1) more effectively manage their own assets; (2) gain access to services, inputs, credit, market outlets; (3) have a more effective input in decision making processes that affect their lives. In numbers, poor producers gain bargaining power.

Helping producers get organized and strengthening their capacity to achieve the above is one of the ways to contribute to the fight against rural poverty and is also an investment in social capital.

The following is a collection of lessons learned and best practices picked at a USAID sponsored PO workshop

a. Initiating Producer Organizations

Lessons Learned

- Ethnic and social homogeneity and cohesiveness of potential members will significantly increase cooperation and mutual support and therefore facilitate PO formation. A History of community level self-help also makes it easier to initiate POs.
- A historical government control over and management of POs creates a negative attitude towards PO development, and much training and time must be invested in helping potential PO members understand the difference between government controlled POs and democratically managed POs.
- Consolidation of output for marketing and bulk buying of inputs are typical strong motivations for PO formation
- To achieve sustainability, a new PO must develop incrementally, i.e. resolve its start up problems, develop relationships with external entities, develop its leaders, achieve and maintain product quality

Best Practices

- Initial PO objectives must be specific, limited in number and accomplishable in reasonably short period of time
- Economic benefits should be the main early PO objective
- The initial external support needed by a new PO is usually for leadership and governance training, membership empowerment and organizational development. Later the focus shifts to business training, establishing new member services and sustainability programs
- A cooperative partnership between government, donors and motivated producers is needed to effectively establish POs
- PO supporters should first develop models of successful POs for inspiration, confidence and emulation
- Soon after formation, it is important to help change the mentality of new members from a focus on short-term gains to that of long term benefits i.e. members must be encouraged to think of themselves as resource managers not dependants

b. Funding

Lessons Learned

- Input and output sales are better sources of sustainable PO revenue than member dues
- Consensus must be reached within a PO on the use of profits e.g. for reinvestment, distribution to members
- Members must be trained on how to best exercise their financial control responsibilities
- Output marketing can be both a valuable service to the members and a source of the revenue needed to sustain the PO, but obtaining the highest producer prices require the development of and active participation of second tier entity in marketing

Best Practices

- Payment of some dividend from operations is very useful to achieve a positive member attitude toward the PO
- Frequent third party audits that are presented to members are essential to help maintain member, leadership and supporter credibility
- Minimize use of expensive credit by self financing to the extent possible and making maximum use of supplier credit
- Avoid paying sitting fees to directors to minimize “perdiemism”, reimburse actual expenses instead
- Second tier funding must come primarily from commercial transactions such as input supply and output marketing since POs alone cannot support a significant union services program

c. Determination of Membership Priorities and Satisfaction

Lessons Learned

- Third party, impartial contractor assessment of member satisfaction is quite rare
- In democratically managed POs, leadership gets voted out when members are dissatisfied
- The level of member participation tends to be directly proportional to the perceived benefits they are getting from the PO. Therefore, member interest and participation in the PO increases as the ability of the PO to positively impact members' income increases

Best Practices

- Since most member services priority and satisfaction determination is done informally, PO leadership must be trained to do it effectively.
- Public display of basic PO information such as membership numbers, Profit and Loss/ Balance Sheet, Organization structure and Officers significantly improves communication and transparency

d. Human Resource Development

Lessons Learned

- Literacy and numeracy training are needed to broaden the leadership pool and improve members' ability to effectively influence PO operations
- Leadership problems are the leading cause of PO failure. Therefore PO sustainability is directly related to how effectively management is able to accomplish goals and objectives, and manage the organization in a transparent and member directed manner
- Technical and strategic capacities are necessary to enable POs implement their activities (*functional literacy and numeracy, accounting and financial management, capacity to analyze constraints, synthesize members' needs, set and articulate priorities, design, implement and evaluate an action*)

Best Practices

- Volunteer PO members with only modest TOT training and materials support can effectively conduct literacy and numeracy training
- Rotation of leadership is desirable to broaden the support and experience base and should be encouraged by inclusion of term limits in the bye laws and pressure by cooperating NGOs on the issue
- It is best that PO management/leadership are not allowed to concurrently hold an elected or government position
- Management should be compensated based on the extent to which they meet agreed goals of the PO

e. Women and POs

Lessons Learned

- The role that women play in POs is minimal, especially in PO leadership and decision making
- Low levels of literacy affects women disproportionately more than men; and their lack of confidence in dealing in male dominated societies limits their active involvement
- Women's special requirements need to be considered when designing PO support programs

Best Practices

- Establishment of women's groups or sub-groups is necessary to ensure that women benefit from PO development programs. Best way of promoting women's development through PO is to either;
 - (i) Support the creation of women only POs focused on agricultural production and marketing, or
 - (ii) Support sub-groups of women within large producer's organizations
- Improving literacy and numeracy will positively affect women because it sets the stage for women to achieve fuller participation in the affairs of POs
- Women's participations in positions of responsibility within POs should be encouraged. A clause on this should be built within the byelaws
- Frequent evaluations and, if necessary, corrective actions are needed to ensure women benefit equitably from PO development

f. Advocacy

Lessons Learned

- The importance of potential impact of advocacy increases in the higher tiers of PO organizations and is one of the main justifications of national level PO
- Effective advocacy can only take place in an environment where POs do not fear government retaliation

Best Practices

- Effective advocacy can best take place after POs have become economically and managerially sustainable
- Members' needs and concerns should drive support for advocacy
- POs should finance most or all of the costs of advocacy out of their own sources of income

g. Communications

Lessons Learned

- Subsector specialized POs tend to have geographically dispersed membership and therefore are more difficult to manage, especially regarding communications
- Poor/lack of infrastructure has hampered communication from between and among members of POs

Best Practices

- For POs with primarily illiterate members, upward and downward communications must take place at frequent, open, and consensus based meetings
- There must be open and frequent communication between the board and members
- Good upward and downward communication is also needed with external sources of support

h. Optimal Environmental Conditions for Producer Organizations and Sustainability

Lessons Learned

- A sub sector or geographic area must be sufficiently economically viable to enable members to produce a marketable surplus and therefore help fund a sustainable PO usually via output marketing services
- Vertically integrated, sub sector POs have increased revenue prospects and the potential to achieve better control or influence over the sub sector.

Best Practices

- The kinds of market liberalizing reforms e.g. elimination of marketing boards, privatization of trade are needed to make PO development viable
- Vertically integrated POs can accelerate the pace of sector development if there is a reasonably balanced power relationship between processor and producer members

i. Government Infrastructure and Policy Support

Lessons Learned

- While policies are being improved as a result of policy dialogue, there are a few instances where current government policy is a significant roadblock to the development of sustainable POs. Nevertheless, policy dialogue and advocacy, focusing on improving the environment for PO and private sector development needs to continue.
- An effective government extension service makes PO development and sustainability much easier
- Current government offices can no longer meet the changing needs of POs since they are generally under funded and poorly staffed and rarely have a good appreciation of the importance of market demand as related to their responsibilities

Best Practices

- Government policy toward and support for PO needs to be consistent over time
- POs need to use advocacy and other programs to establish closer ties with Government research institutions and thereby make sure their priorities and results are more closely linked to members' needs

j. Support and Linkages for Producer Organizations

External Support

Lessons Learned

- POs must carefully plan how they are going to gain access to the technical and financial resources they need to be more successful. Initially some of this support will likely to come from external sources, but a plan must be developed and implemented to reduce external sources of support and increase internal sources
- PO development is easier and faster in areas reasonably well connected to markets.
- Selection criteria for ongoing PO external support should be based on a PO's plans and potential for;
 - (i) a large number of active members
 - (ii) Transforming members from subsistence to commercial producers
 - (iii) Democratic and representative governance
 - (iv) Financial and decision making transparency
 - (v) Effective upward and downward communication systems
 - (vi) Managerial and financial sustainability
 - (vii) Replicability- the extent to which the PO can become a model of success for others to emulate
- Once the volume of production rises in response to the more attractive producer process the PO obtains assistance in production technology and natural resource management become increasingly important to further PO expansion.
- The grouping of 6-8 POs into Unions and 6-8 Unions into federations significantly improves the ability of POs to implement commercial transactions, hire professional managers and accountants and achieve the numbers needed for effective voice

Best Practices

- i) POs seeking support must be thoroughly screened to make sure they are highly motivated and committed to eventually becoming self-sustaining
- ii) PO development should start in areas better connected with markets and focus on a small number of high value products
- iii) Concentrate initial support efforts in limited and contiguous geographic areas for cost-to-serve efficiency.
- iv) The main focus of external support must be on leadership capacity development achieved via substantial training in management, accounting, marketing and productivity improvement
- v) Business/Trading training and assistance to help members understand and apply the basic principals of marketing and finance is a priority need for improved PO sustainability
- vi) Basic accounting training for PO and union leadership, and to a lesser extent PO operating control and improved transparency of operations.
- vii) Marketing training is also very important for PO, and especially Union, success and is therefore an important external support service
- viii) Union and federation level personnel need extensive organizational management and should be provided it as long as they demonstrate loyalty to the grass roots POs.
- ix) Appropriate and effective market information is needed to enable POs sustain successful output marketing businesses, and is usually best initially provided by externally financed specialized TA- until the system is functioning properly.

- x) Some cost sharing of external support services by POs is essential to both stimulate progress towards sustainability, and as a reflection of member interest and commitment
- xi) Effective coordination of PO support between donors, NGOs, Government and the private sector is essential.
- xii) PO development supporters should avoid sourcing inputs to be distributed to or by POs from outside the country since this destroys local distributors. An arrangement should therefore be made where POs and distributors come to know one another.
- xiii) All supporters of POs must establish specific and measurable performance standards for supported activities and make progress on these indicators a condition for continued support
- xiv) In environments where people are not experienced or comfortable working together a large number of small primary level POs works best

k. Direct Government Support

Lessons Learned

- i) Support for POs from government, especially from the central government, tends to be top heavy, highly bureaucratic, and not well grounded in grass roots PO priorities.
- ii) There must be very minimal government interference with PO at all levels, i.e , it must not interfere with PO decision making and not participate in activities competitive with POs
- iii) Extensive Government involvement in the upper tiers of POs is counter productive as a result of its negative influence on advocacy programs

Best practices

- i) Decentralized Government support for PO formation and sustenance is more effective than national level support
- ii) Government extension service support for PO formation can be quite effective, especially if it is not politically motivated or influenced.
- iii) Government direct support for Pos must be designed in such a way that it does not inhibit the development of private sector services to replace Government services.

l. Donor support

Lessons Learned

- i) Excessive donor support leads to donor dependency i.e does not encourage sustainability
- ii) Donors must put PO economic sustainability on the same footing as organizational sustainability
- iii) As POs supported by one donor become successful and start unions, other donors will become interested in providing support
- iv) Donors can often obtain a better return on their investment in development through support of POs rather than through sub sector development programs

Best Practices

- i) Donor funding for training in the principles of democratic and transparent POs, how they differ from old coops, and PO/Union leadership development is essential for sustainable POs.

- ii) Donor commitments to PO development must be long term and sufficiently broad based to address nearly any constraint to PO initiation or sustainability.
- iii) Donor supported NGOs can over time, develop local PO training and development businesses that can be contracted to do training at a much lower cost than an international NGO, and may be affordable enough for POs to pay for nearly all of their own training.
- iv) Free or below market price food distribution by donor lowers market prices and makes it difficult for POs and PO members to market their produce at fair prices.

l. NGO/PVO Support

Lessons Learned

- i) Extensive and long term NGO/PVO TA is needed to develop sustainable POs, especially where direct Government PO services are non-existent or very modest.
- ii) NGOs/PVOs must be driven by PO members' priorities not their own.
- iii) Most NGOs/PVOs are not strong enough in commercial skills training

Best Practices

- i) The most valuable form of NGO/PVO support is training in PO organization and the principles of democracy and transparency
- ii) Donor supported NGOs/PVOs should focus on building sustainable models, since their cost of operations cannot be justified on a longer-term full "roll-out" basis. Such models developed can and will be adapted and replicated by other donors

m. Private Sector Linkages

Lessons Learned

- i) The need for effective private sector linkages increases as the importance of input buying and especially output marketing increases.
- ii) Substantially improved communication is needed between POs, their second tier entities and the private sector.
- iii) Big agribusinesses prefer to deal with private middlemen due to management difficulties with POs and Unions, especially related to their speed of decision making and fulfillment of agreements, and to their timely delivery of products of agreed upon quality.

Best Practices

- i) Private sector with PO involvement must be increased, especially for output marketing; but POs must be linked to fair and competent output buyers and input sellers.
- ii) Significant training and TA is needed to help POs effectively deal with private sector
- iii) In most cases second and third level entities are the best interface with the private sector due to their ability to deliver large volumes of product and to manage large marketing operations.
- iv) POs need initial support to develop second and third tier entities and a record of sound business practices leading to long-term relationships with major traders and agribusinesses.

n. Linkages with other POs

Best practices

- i) Better linkages and more contact is needed between developing POs and successful POs both in country and regionally so the successful can function as models for optimal PO development.
- ii) Exchange visits between successful POs and upper tier entities are very useful to share successes and lessons learned.

o. Credit for producer Organizations

Lessons Learned

- i) Loans are good enhancers of business growth
- ii) Marketing loans are some of the most successful and easiest to arrange and will benefit both members and non-members due to the POs ability to market larger volumes of product and therefore improve their ability to negotiate and achieve economies of scale.

Best Practices

- i) Access to credit must be based on borrower's ability to repay not to the extent of their need. Not all members will be eligible for loans and their character and track record in prior loan repayment and similar business dealings must be taken into account by the PO in deciding which members can receive loans.
- ii) Loans need to be available on a timely basis, e.g., well before the planting season for input loans or for market loans before the crop is harvested.
- iii) Access to loans by members is significantly enhanced by an agreement that the PO will deduct loan payments from sales revenue from members' produce the PO markets before the members are paid.
- iv) Special efforts need to be made to assure equitable access to credit on part of women

p. Cost of credit

Lessons Learned

- i) Very few agricultural related businesses can afford medium term credit at rates which are focused on controlling inflation i.e are 20%+

Best Practices

- i) The cost of credit should not undercut prevailing market rates for best borrowers
- ii) POs should minimize the use of expensive credit by self-financing operations to the greatest extent possible
- iii) Where possible POs should make maximum use of supplier credit, buyer advances, and member consignment to reduce the costs of borrowing.
- iv) POs should act as a catalyst for micro finance programs to enter into their communities and assist their members in their financial needs since POs are in a position to know which members are good and bad credit risks. This will facilitate the work of micro finance institutions and improve members' access to credit

Issues and Challenges

1. What is the best way to achieve optimal access to and utilization of credit?
2. What is the way to help producers in marginal areas who do not have sufficient

- marketable surplus to pay dues or support a sustainable PO, since they are the most in need.
3. What is the optimal extent of PO forward integration, i.e., what is the optimal crossover point between POs and commercial agribusiness?
 4. What are disadvantages and advantages of vertically integrated POs? Under what circumstances will a vertically integrated PO be the best approach, and when is a horizontally integrated PO the best?
 5. How can NGO/PVOs most effectively do advocacy training and development without upsetting Government in power?
 6. What is the best way to avoid conflicts between
 - (i) traditional village leadership and emerging strong PO leadership,
 - (ii) economic benefit focused POs and the traditional political representation village organizations?
 7. What is the most effective way to develop mutually supportive and sustainable POs and the private sector agribusinesses they do business with?
 8. What is the best way for non-revenue needs in democratically controlled POs e.g social projects and advocacy, to be kept in balance with revenue needs in democratically controlled POs?

Risks involved

POs are not necessarily inclusive. There may be some glass entry barriers for the poorest of the poor, lacking the minimum assets and human resources to take advantage of what a PO can offer. Potential conflicts between equity and efficiency objectives may thus arise. Challenge is how to reach the unorganized poorest. PO's leaders may be cut off from their base and lack accountability to their members. While programs to strengthen POs are intended to resolve these problems, in the meantime, access to funds and services may still be captured by PO leaders, often the local elite, to the members' detriments, resulting in giving more powers to already powerful local groups or individuals.

Empowering POs should result in the creation of counter forces in society, leading to a shift in existing power relationships. Existing elite groups may prevent the development of these counter forces.

Government and civil servants are likely to resist the change, afraid of losing control of their prerogatives. Political parties and individuals will try to co-opt the process and use POs as a vehicle to promote their agendas

Empowerment of POs through a learning by doing process may result in failures and misuse of funds

Capacity building of POs is a slow and uneven process, regulated by existing social behavior and cultural norms. Donors may get impatient and force the process artificially, resulting in unsustainable advances.