

# 5

## FINANCIAL ENTITIES AND AGRICULTURAL VALUE CHAINS: INNOVATIVE ARRANGEMENTS

---

*Dercí Alcantara, Enrique Martínez, Enrique Zamora,  
Luis Corrales and Leonela Santa*



The purpose of this chapter is to compare the experiences of financial operators using agricultural value chains to supply services in new, dynamic ways at low transaction costs. Continuing with the “applied” approach used in other sections of the book, the financial organizations themselves will describe their experiences, difficulties, lessons learned and recommendations.

## A. Banco do Brasil

Dercí Alcantara

Banco do Brasil (BB) is the largest bank in Latin America, with more than two centuries of history and 70 years of activity in support of agriculture. It has over 14,800 branch offices and service points, 22.9 million clients and total assets of more than US \$127 billion, equivalent to 15 percent of all the assets in the Brazilian financial system.

The Banco do Brasil credit portfolio is worth more than US \$46 billion, or 16 percent of total credit in the Brazilian financial market. The largest sector of economic activity in the BB credit portfolio is agribusiness, which holds 35 percent, followed by wholesale trade, 23 percent, retail trade, 18 percent, and small business, with 15 percent.

The rest of this section is divided into three parts. The first will discuss Brazilian agribusiness, the second, successful experiences in this industry in Brazil, and finally, recent BB projects involving agri-chains and their financing.

### 1. Agribusiness in Brazil

The most important sector of economic activity in Brazil is agribusiness, which generates 33 percent of the gross domestic product (GDP), 37 percent of exports and 30 percent of total employment.

As can be seen in Table 5.1, Brazil is among the world's largest producers and exporters of many agricultural products, including coffee, orange juice, sugar, soy compounds, beef, chicken and tobacco.

Table 5.1  
Brazil's standing in worldwide agribusiness

PRODUCTS	PRODUCTION	EXPORT
Coffee	First place	First place
Orange juice	First place	First place
Sugar	First place	First place
Soy compounds	Second place	First place
Beef	Second place	First place
Poultry	Second place	First place
Tobacco	Second place	First place
Fruits	Third place	--
Corn	Fourth place	--

SOURCE: Derci Alcantara, Seminar presentation.

Equally important is the role of agribusiness in Brazil's trade balance. In 2005, the country posted a favorable balance of US \$45 billion, and agribusiness, with its net positive balance of US\$38.4 billion, was responsible for 86 percent of this total surplus.

## 2. Successful agricultural chains

Agricultural production in Brazil has shown steady growth and increasing productivity over the past 15 years. From 1990 to 2005, while overall production grew by 114 percent, total land under cultivation increased by only 23 percent, to a total of 47 million hectares by 2005. Meat production has been one of the most successful chains over the past decade, with output rising by 69 percent (beef), 107 percent (pork) and 165 percent (poultry).

Alongside this strong growth, financing for agricultural investment has shown significant advances as well, reaching US\$26.7 billion by mid-2006. Half this amount (US\$13.6 billion) was financed by Banco do Brasil, which had a particularly strong presence in certain activities and covered 18 percent of total credit needs for beef production.

As a result of the freer flow of financing, overall production and chain structures made strong gains in soy, corn and cotton. Moreover, because successful agricultural chains are closely interlinked, surplus soy and corn are being plowed into poultry, pork and beef production.

Just to give a quick idea of growth potential in the Brazilian agricultural sector, the country has a total land surface area of 851 million hectares covered by Amazon forest (41 percent), pastures (26 percent), annual crops (6 percent), unused land (12 percent) and protected areas (6 percent), with the remaining 14 percent in perennial crops, cultivated forests, cities, lakes, roads and other uses. These figures suggest that production could be doubled or tripled, especially grain production.

Below are some of the characteristics of agriculture in Brazil, and how they are financed:

- i. *Smallholder agriculture.* Smallholders and their families produce around 30 percent of Brazil's agricultural output; figures are more extreme for certain crops, such as cassava, where this group holds an 84 percent share, as can be seen in Table 5.2.

Table 5.2  
Small-scale farm producers in Brazil.  
BB share in production and financing

CONTRIBUTION OF AGRICULTURAL SMALL HOLDERS TO AGRICULTURAL OUTPUT		BANCO DO BRASIL FINANCING FOR AGRICULTURAL SMALLHOLDERS	
Activity	Share (percent)	Year	Credit portfolio (US\$ billion)
Cassava	84	2000-2001	0.6
Beans	67	2001-2002	0.7
Milk	52	2002-2003	1.1
Corn	49	2003-2004	1.7
Poultry and eggs	40	2004-2005	2.1
Pork	58	2005-2006	2.9

SOURCE: Dercí Alcantara, Seminar presentation.

In 2002, when it was serving 660,000 small-farm families, Banco do Brasil began building partnerships to introduce simplified financial products, and by 2005 it had surpassed its goal of one million families served, with a credit portfolio of US\$2.9 billion.

One of the recent financial products is a renovated credit card, introduced as part of the National Program to Strengthen Family Farming. The Bank has issued more than 500,000 of these cards, at no cost to the families. Smallholders can use the card to withdraw money from a cash machine or make purchases in farm supply stores. In the near future, BB will add another feature to the cards: they will serve as a loan instrument whereby clients sign a single contract and collect loan disbursements through cash machines.

All this is part of a strong push to bring about social inclusion through income distribution. Even as it actively develops these programs, BB has maintained a healthy portfolio. Over the past five years, smallholder credit operations have posted losses of less than one percent, making this the bank's best-performing portfolio.

- ii. *Farm product note.* This instrument is known by its Portuguese acronym, CRP, a Government support program for loans to agribusiness. It is an unsubsidized loan granted at market interest rates against a note issued by the farmers and their cooperatives, committing them to deliver a specified amount of product or an equivalent payment on a future date. Banco do Brasil managed US\$2.3 billion in CPR funds in 2005.
- iii. *e-trade.* This service facilitates transactions by agribusiness traders over the BB website. The amount rose from US\$500 million to US \$1 billion.
- iv. *Support for regional development.* The objectives of this program are to promote social inclusion, democratize access to credit, encourage the creation of cooperatives and associations and boost standards of living. The program began in 2003 with 17,000 families, and by March, 2006, Banco do Brasil was serving 113,000. The Bank has a foundation that helps out with program logistics.

### 3. Other projects

Banco do Brasil is involved in a number of ongoing activities with the operation and financing of agricultural value chains. It constantly seeks new strategies to strengthen certain areas, including:

- i. *Futures and options markets.* Although these instruments are typically the province of larger clients, BB has introduced several arrangements for smallholder families as well. In one example, large companies in the poultry value chain are encouraged to offer option prices to corn producers who supply their raw materials. In a second arrangement, the Government extends options to smallholder families producing specific types of crops, such as rice. If prices drop below production costs, the Government purchases their crops.
- ii. *Farm insurance.* Farm insurance programs are one of the weaknesses in the Brazilian system and stand in need of improvement.
- iii. *Support programs for integration systems.* Support programs for integration systems are one of the most important program areas in Banco do Brasil, because the bank offers financing only if small-scale farmers are fully integrated into the chain. For example, it finances seven thousand families to produce castor beans, a biofuel that is processed and distributed by entities in the same chain.
- iv. *Reforestation programs.* Even though 41 percent of Brazil's land is forested, the rapid growth of timber and cellulose production is exerting considerable pressure on forest resources, creating a critical need for continuous reforestation.

- v. *Bonded warehouses.* The Bank holds a small share (five percent of its activities) in rural bonded warehouses, and is interested in improving the program.

Banco do Brasil is also interested in playing a larger role in a new biofuel production program. Even though Brazil produces large volumes of ethanol, the BB itself is just beginning to make inroads into this business.

## **B. Banorte**

Enrique Martínez

Banco Mercantil del Norte (Banorte) is the only Mexican bank comprised of 100 percent Mexican capital. It was named México's Bank of the Year in 2005 by a prestigious business journal. Banorte recently acquired a small bank in the United States and took over a remittance company to get in on the business of transfers sent home by Mexicans living north of the border.

This section is divided into three parts. It begins with a brief description of financing in Mexican agriculture subsequent to the crisis of the mid-1990s. This is followed by an explanation of the bank's strengths that enabled it to seize opportunities arising at the time. It will close with a description of the main financing arrangements Banorte offers to the agri-food sector.

### **1. The current environment for agricultural finance in México**

México experienced a severe crisis in 1994, but the agricultural sector had already begun to quake in 1993. Many financial institutions in México decided to drop the sector altogether. The result was a negative perception that agriculture was too risky, combined with an inappropriate legal framework that created uncertainty, and a very high unmet demand for financing.

Government-run development banks shied away from the active role they should have played in development. They chose to focus instead on commercial financing for large companies, which is more properly the domain of private banks. An attitude of "I won't pay" began to take shape as debtors banded together in organizations whose goal was to avoid payment, and banks were frightened away. In addition to all this, the agricultural sector was faced with looming globalization and market liberalization. In short, the situation for the sector looked very difficult.

## 2. Strengths of Banorte

As the larger financial institutions began to pull out of agriculture, Banorte spied an area of opportunity. Eager to withstand these adversities and seize the moment, the Bank developed strategies and clear, specific operating rules, also leveraging the many advantages it already had in this field, as seen in Table 5.3:

Table 5.3  
**Advantages and strategies of Banorte for strengthening its position  
 in agricultural finance in México**

ADVANTAGES AND STRATEGIES
<ul style="list-style-type: none"> <li>• Knowledge of market conditions</li> <li>• Knowledge of production sectors</li> <li>• Specialized personnel with an average of 15 years experience</li> <li>• Identification of target markets: production chain</li> <li>• Evaluate the project before assessing collateral</li> <li>• Innovation and product diversification               <ul style="list-style-type: none"> <li>-- Financial leasing</li> <li>- Resources for opening credit operations in checking accounts</li> <li>- Arrangements for making mass credit available: New Holland, Basic Grains Program, Procampo for the short and long term, para-finance arrangements</li> <li>- Services to small- and medium-scale enterprise: Agroactivo program, etc.</li> </ul> </li> <li>• Improve the risk profile               <ul style="list-style-type: none"> <li>- Regional and product segmentation</li> <li>- Short- and long-term portfolio balance</li> </ul> </li> <li>• Inter-institutional coordination               <ul style="list-style-type: none"> <li>- FIRA</li> <li>- Government institutions (SAGARPA, ASERCA, CNA)</li> <li>- United States Government</li> <li>- Insurers</li> <li>- Agribusiness corporations</li> </ul> </li> <li>• Quantifiable profitability indicators</li> <li>• Close supervision and portfolio maintenance</li> </ul>

SOURCE: Enrique Martínez, Seminar presentation.



The Bank had people who understood the sector and had much experience, and fortunately, it gave them the opportunity. The program called for great innovation, which was one of the keys to its success. It introduced novel instruments that did not exist in the rural market at that time, such as leasing, a wide variety of loans, checking accounts, and programs to extend mass credit. It also made good use of Government subsidies. Even so, the Bank is not dependent on State funds, which make up a minority share of Banorte financial offerings.

The main target market was the production chain. In other words, Banorte financial services supported production chains in agricultural activities, both the primary sector (farming and ranching) and agroindustry and marketing of products, inputs and agricultural services.

The Bank built partnerships with agroindustrial corporations to bring down the cost of credit, and developed a number of indicators for use in closely monitoring its agricultural portfolio. As a result, these operations have become very profitable for the company. After starting with an agricultural portfolio of 418 million pesos in 1999, Banorte had pushed the balance up to 10.8 billion pesos (nearly US \$1.1 billion) by December 2005, and only one percent of these loans were in default.

Banorte agricultural financing activities, operated by 65 employees, now cover nearly the entire country. The Bank's agricultural division has operations throughout the entire agri-food sector. It is involved in: (i) primary economic activities in farming, ranching, forestry and fishing; (ii) manufacturing of foods, beverages and tobacco, as well as processing activities in meat and dairy, prepared fruits and vegetables, edible oils and shortening, sugar, beer and malt, and animal feed.

### 3. Financing arrangements

Banorte offers a variety of financing arrangements, some of them backed by Government programs, as follows:

- i. *FIRA*. As Rubén Chávez already explained in Chapter 4, FIRA is a second-tier State entity for financial and technology development that supports the agricultural sector. Banorte and FIRA enjoy an excellent business relationship that has been 40 years in the making; 70 percent of the funds it lends to the agricultural sector come from this institution. Its programs with FIRA include credit operations (financing for investment projects in México's rural and fishing sectors), guarantee programs (to supplement collateral requirements for loans) and an incentive program (Bank Incentive Program to support producers and strengthen agricultural structures).
- ii. *Agroactivo*. This program grants credit to be used as working capital or invested in fixed assets. It is an indexed product, authorized by system, for financing needs from US \$50,000 to US \$350,000.
- iii. *Para-finance*. A para-finance agent is a private-sector company that, because of its management capacity, bargaining power and positioning in the market, facilitates access, distribution and collection of loans. Similar to the companies described in the section on UNIPRO in Chapter 4,

they help Banorte make credit available on a massive scale. They get credit out to farmers, supervise loans, and when the harvest is in, they help with collection. The Bank discounts funds with FIRA.

The arrangement is useful for developing “tailor-made” projects, such as an irrigation system to finance the preservation, maintenance and modernization of infrastructure by means of working-capital financing (*avío*) secured with inventories or raw material or fixed-asset loans for purchasing machinery (*refaccionario*), secured with capital assets. One client is an association of irrigation users from the state of Sinaloa, in a project that serves more than 27,000 farmers working 200,000 hectares. Another example is financing for the acquisition of farm machinery and equipment with loans granted through para-finance agents. One such program, conducted through the New Holland company, benefited 18,600 farmers with 7268 authorized loans, and financed 9100 pieces of equipment (tractors, haying machines, construction equipment, farm tools, and the like).

- iv. *Basic Grains Program – Procampo*. These are financing operations for a specific use (grain planting and cultivation), guaranteed and endorsed with a Procampo subsidy granted by the federal government. Through this program, farmers have access to loans up to an amount equivalent to the Procampo per-hectare quota (discounting interest). The program also provides a way to obtain an advance, through a fixed-asset or *refaccionario* loan, on the subsidy that will be received over the next three years, backed by Procampo resources and natural credit guarantees.
- v. *Financial leasing*. This product is offered through the Bank’s leasing program to finance goods and services or equipment such as refrigerated shipping containers and processing machinery. The service is based on a contract under which the Banorte leasing institution grants the use or temporary enjoyment of a good to the lessee.

Banorte has other products and arrangements as well, such as:

- Credit unions
- Grain pledging program
- Inventory purchasing program (Ocean Garden)
- Livestock program
- Target income program for grains and edible oils
- Sugar cane production program.

These products no longer go to the Credit Committee. It is enough to submit the documents with joint signatures, depending on credit limits, for amounts of up to US \$3.5 million.

The grain pledging program, which is very important for Banorte, is conducted by means of certificates of deposit. The inventory program deserves special mention as an innovative product offered by no other bank in México. The Banorte warehousing facility purchases the crop and then sells it to the

producer. This service improves client operations by monetizing inventory. Obviously, it provides liquidity as well, improves the farmer's balance sheet and offers a contractual guarantee that the crop will be returned to him. The Bank has applied this arrangement to shrimp production, grain farming and, more recently, livestock. Some feel it is too risky because of problems with transporting animals, but Banorte knows the market and performs thorough screening of clients whose livestock is now being certified.

## C. LAFISE

Enrique Zamora

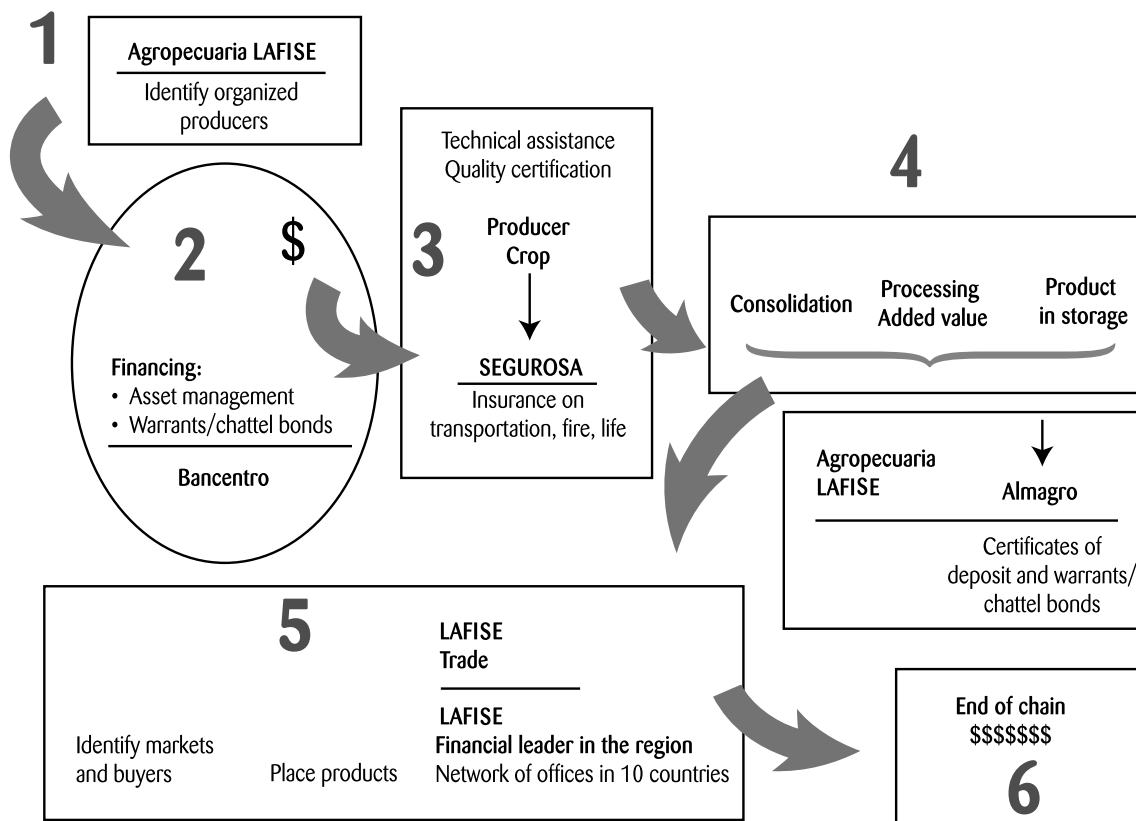
This section discusses activities by Grupo LAFISE to develop and strengthen agricultural value chains throughout Central America. It starts by describing the comprehensive structure of the support model, followed by examples of financial and nonfinancial programs and services.

### 1. Comprehensive support for the value chain

*Grupo LAFISE* works with farmers to position them for the free trade agreement between the United States, Central America and the Dominican Republic. Its agricultural division, Agropecuaria LAFISE, has launched a pilot plan for financing the agricultural production chain. It also provides financial resources and channels them through partnerships with other public and private organizations that lend technical assistance, training and institutional support to small- and medium-scale producers organized into cooperatives, guilds or associations.

LAFISE hopes to play a role at every stage of the value chain including financing, production, marketing and export (see Diagram 5.1). It draws on 20 years of experience, a presence in 10 countries of the Caribbean and Central, North and South America, and the services it lends through its own companies or its close partners in insurance, the stock market, investment banking, universal banking, currency exchange, agricultural commodities exchange, leasing and information systems. Also, with the involvement of Agropecuaria LAFISE, it guarantees product sale through its offices in Central America, México, Venezuela and the Dominican Republic and through LAFISE Trade in Miami.

Diagram 5.1 LAFISE model for financing the agricultural value chain



SOURCE: Enrique Zamora, Seminar presentation.

Grupo LAFISE support begins as soon as farmers receive their production loans and continues until they have collected the proceeds on their overseas product sales. It includes access to the office in Miami, which is responsible for visiting trade fairs and identifying buyers. As soon as a good potential buyer has been identified, paperwork is simple. The presence of Agropecuaria LAFISE reassures the buyer as to product quality, speeds up operations and safeguards collection for the seller.

## 2. Programs and partnerships

Grupo LAFISE operates many different kinds of support arrangements for agricultural value chains, from an array of financial products (credit and otherwise) to technical assistance and marketing services. Some of these are listed below.

- i. *Central American payment system.* Exporters have access to the network of offices in all the countries of the region and the assurance of stable currency conversion. As a result, they enjoy great flexibility and efficiency for receiving payment on products they sell in the countries of the Isthmus.

- ii. *Agricultural commodities exchange.* The Group has a seat on the agricultural commodities exchanges in various countries of Central America. Because these exchanges are certified by the ministries of the economy, many producers, especially cooperatives, can use them to handle domestic marketing of their products. Ideally, all agricultural marketing among the countries of Central America will take place through the commodities exchange. Producers will have the reassurance of selling their products for the best price, and buyers know that they are acquiring products that uphold quality standards and that have both a certificate of origin and a quality certificate.
- iii. *Warehouse.* LAFISE owns a warehouse operation in Nicaragua where farmers can negotiate a better price for their crops. The company trains producers to understand how much profit they lose when they sell immediately at harvest. They can either store their full crop or receive a maximum of 70 percent of the value two days after delivery.
- iv. *Investment fund.* The Group handles an investment fund of US \$30 million with resources from the Inter-American Development Bank, LAFISE and a Norwegian investor. The purpose is to support small businesses throughout Central America. In order to qualify, projects must employ fewer than 100 workers and post sales of less than US \$3 million per year.
- v. *Managed funds.* The bank manages funds for 21 national and international organizations. Because of restrictions contained in banking regulations, it is very expensive to lend money to farmers with little collateral. Therefore, the Group began a fund-management service for other programs that target small-scale farmers.
- vi. *Development of the marketing component.* Through strategic alliances with USAID, Michigan State University, the Inter-American Institute for Cooperation on Agriculture, Nicaragua's Instituto de Tecnología Agropecuaria and the Nicaraguan Commodities Exchange, the Group began helping producers of various products to sell their crops through the agricultural commodities exchange, which offers many advantages.
- vii. *Loans through food processing companies.* Banco LAFISE has begun to place loans through food processing companies or consolidators, having encountered considerable difficulty trying to reach small farmers directly. For example, the milk collection plant serves as an intermediary granting 400 loans of US \$5,000 each for purchase of inputs and animals, and it has reported a default rate close to zero.

Grupo LAFISE also provides technical assistance and even has a training program on export management. Its other services include leasing for the purchase of equipment and machinery, asset pledging (chattel bonds or warrants), guarantee trusts, discount factoring and micro-financing of exports.

## **D. BN Desarrollo**

Luis Corrales

Banco Nacional began to offer development banking services only as recently as 1999 (BN Desarrollo). Even so, since 1914 the bank had an agricultural finance support program known as Juntas Rurales de Crédito (Rural Credit Boards), described in more detail below.

The bank created its Development Banking Division with a focus on sustainability, a long-term vision and the intention of remaining in place for a long time. Even though this section is not directly about BN Desarrollo, it will discuss one of its programs for promoting value chains, starting with a reminder of the bank's philosophy: promoting success.

As of today, the Development Banking Division has a balance of about US \$300 million in its portfolio and represents 20 percent of the entire Banco Nacional portfolio. Since it was created in 1999, it has placed more than US \$500 million in the hands of more than 90,000 customers.

### **1. The Costa Rican environment**

It is important to understand a little bit about the environment in Costa Rica in order to see the whys and wherefores of certain processes in the Development Banking Division. The bank designed and implemented its development banking strategy as a function of specific underlying characteristics and with a focus on a wide variety of value chains or clusters. These features of the Costa Rican setting are:

- A disinclination of Costa Rican producers to work in association with one another.
- A traditional focus on stimulating employment.
- A weak focus on quality; tendency to ignore demand.
- Transition from transaction-based organizations to relationship-based organizations, or from supply to demand.
- Little penetration of Internet.
- Focus on the short term.

A first important consideration is that, because association is not natural in Costa Rica, financial institutions need to shoulder the task of promoting business formation. Although this could cause certain distortions in financial performance, it is also a good thing as the relentless process of competitiveness continues to emphasize the need for teamwork. In response, the Bank has involved itself in development promotion programs with rural communities.

Business development in Costa Rica has overlooked the agricultural sector. Indeed, the great majority of small-scale producers in this country do not consider themselves entrepreneurs. This is

unfortunate because the agricultural sector is not only a production sector in itself, but is also a critical source of inputs for other sectors that are vital for development. This is particularly true in such fields as rural tourism, agri-tourism, export activities and agroindustry.

While weaknesses in this field are undeniable, it is equally true that, little by little, the sector shows encouraging signs of maturing and evolving. Organizations that have focused only on transaction, ignoring relationship, seem to be entering a transition. An example is the coffee growing sector. In the past, a good manager of a coffee cooperative was a person who very clearly understood the cooperative's transactional production structure. Today, a good manager needs to grapple with commercial relationships, fly to Europe or any other country for negotiations and undertake a healthy business development process, starting with the tip of the iceberg, which is marketing.

We hear much talk these days about a gap between the "info-rich" and the "info-poor." This is why Costa Rica's low penetration of Internet is a critical issue. The country claims 23 percent coverage, compared to 70 percent in Sweden or 69 percent in the United States. Rural areas must not neglect this matter, so important for strengthening businesses and gaining access to new markets. Trade liberalization began some time ago, with or without free trade agreements, and financial institutions need to insist on this point and help their clients understand it.

A final issue is the focus on the short term. This is deadly in any strategy to promote development, especially in the matter of agricultural chains. Costa Rica already suffers from a serious weakness because producers are so reluctant to form associative enterprises, a problem that cannot be solved overnight. A policy designed to address an issue of this kind must never lose sight of the long term. This is why it was so important that the Banco Nacional development banking program began with a long-term vision.

## 2. Linkages

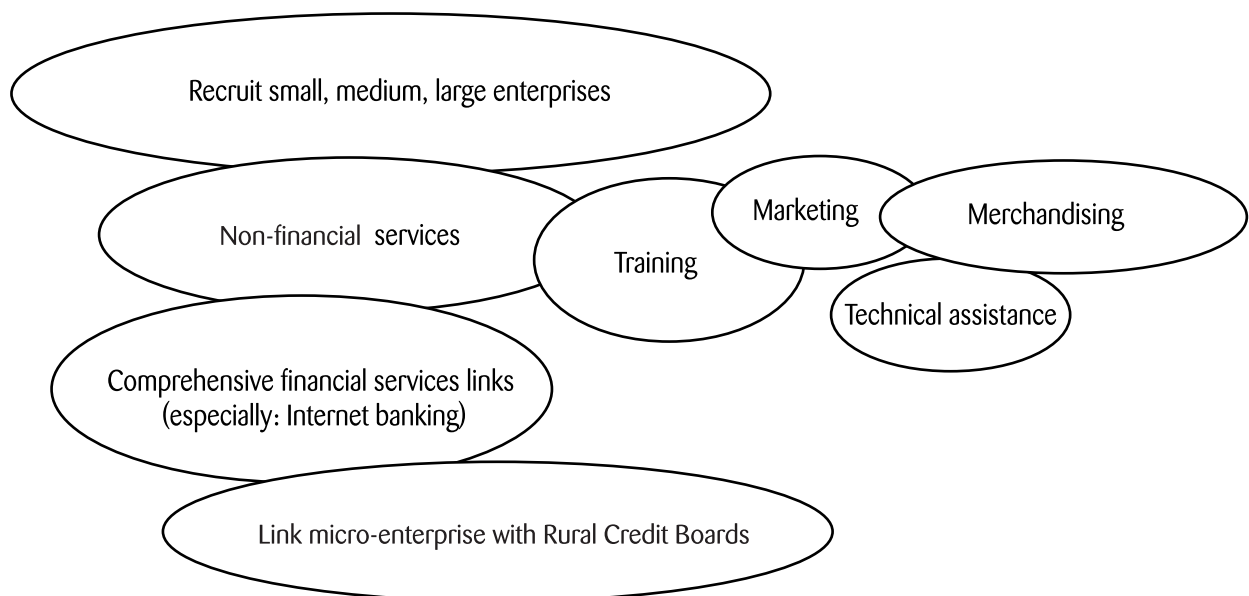
When *Banco Nacional* began to support value chains, it took the sensible step of combining the concept of micro-enterprise with the Rural Credit Boards. From the very beginning, the bank embraced the principle of supporting small businesses, which at that time generally meant small farmers. Times changed, despite the fact that Costa Rica still has in effect a 1948 law stating that farmers qualify as "small" only if they devote 100 percent of their time to farming, to the exclusion of other alternatives and opportunities. For this reason, Banco Nacional undertook a program for non-agricultural micro-enterprise, a sister to the Rural Credit Boards program, illustrated as a first link at the base of Diagram 5.2.

Credit is not the only difficult issue facing Costa Rican producers, who struggle with all the problem areas listed above. Therefore the bank also developed a line of non-financial services. One of the most useful areas that Banco Nacional has promoted, building on its technological platform, is Internet Banking. The owners of small-scale and micro-enterprises need encouragement to grasp opportunities that already exist and that may optimize their use of time. Very often the operators of

micro-businesses, having first learned to pay their telephone bills over the Internet, start to take a greater interest in using technology to improve their production processes. They also need training in the importance of saving. Producers often come into the bank to apply for large amounts of credit, but following its analysis of the operation, the bank slashes the amount to a fourth or even a fifth of the initial request. Credit analysts find that applicants actually need working capital, not money to purchase their rented property. In these cases, a critical part of the linkage process is having the opportunity and ability to guide clients in how best to manage savings and liquidity and optimize their time management.

In 2000, after the program was well underway, the Bank found that it needed to add a second objective to the development banking program: promoting non-financial services. It had an advantage in this area. It was already aware of some of its clients' weaknesses, and therefore was well positioned to help the providers of non-financial services, both public and private, to streamline operations and minimize logistics costs.

Diagram 5.2 Linkage strategy of BN Desarrollo



SOURCE: Luis Corrales, Seminar presentation.



Thus the bank has been building a corps of partners. It has worked with many of them for more than five years, albeit through an informal relationship, having signed no formal documents with these service providers. Results have been successful, as the credit portfolio clearly reveals: the rate of 90-day defaults has never exceeded 1.5 percent during the entire life of the development banking program.

An additional gear in this machinery involves luring medium-sized and large companies into the process. The Development Banking Division recently had the opportunity to pay an observation visit to the Veneto Valley in northern Italy, a place where small businesses abound. The region has a population comparable to Costa Rica's, with 4.3 million people who run 440,000 small enterprises. They feel that their model suffers from a specific weakness: it lacks a large company (or several large companies) that could serve as the "spearhead" in broad negotiations on global markets. This demonstrates that partnership with medium-sized and large companies plays a critical role.

### 3. Models for intervention

The first model I will discuss is from a Banco Nacional program in the Talamanca indigenous region, where the chain centers around small-scale farm women. The Association of Small-scale Farmers of Talamanca (APPTA) undertook a very interesting process some years ago, in which the Inter-American Development Bank provided a small grant to promote business strengthening processes. The IDB money also went for creation of a fund to guarantee up to 25 percent of the loans to these small farmers who export cacao and organic bananas to Europe. Already 22 farmers have received financing. Another 30 are currently receiving business training from one of the strategic partners in this field, who is teaching the indigenous women about globalized markets.

The program also covers issues of fair trade and environmental protection, and research is underway on handling cacao liqueur. It has conducted several specific experiments on product diversification. As a result, project farmers are now exporting tropical fruits to Switzerland for use in novel energy beverages produced with all natural ingredients.

Experiments of this kind are very encouraging, but they demand a change of attitude in the institution, and this takes time. In the Banco Nacional of 1994, people practically had to crawl in on their knees to beg for a loan. Fortunately, today most bank employees understand that if they do not provide good service, the competition will leave them in the dust. The bank has worked to engender this new attitude in the more than 200 executives working for the Development Banking Division. Now they even offer to travel out to Talamanca and get their shoes muddy so they can meet with small-scale indigenous farm women.

As part of its emphasis on supporting chains, in 2004 the bank began a project called Expocapacita ("expotraining") and Ruedas de Negocios ("business tables"). These activities offer business training

to bank clients and build bridges to connect micro- and small businesses with medium-sized and large companies. Several fascinating projects grew out of the work.

For example, in Guanacaste tourism centers, the bank is working with hotels and agricultural suppliers. Five large hotels are involved in the process, together with more than 20 local small businesses. A similar experience is underway in the region of San Carlos, with the additional appeal of agro-exports. These are not large hotels. For the most part, they are medium-sized, and it is interesting to see how small farmers no longer think only of supplying the hotel with fresh fruits. They are also finding ways to involve their families in maintenance, cleaning and laundry services.

Currently, the most complex *BN Desarrollo* project is a local development chain in Sarapiquí, with a mixture of conditions and horizontal and vertical linkages. Sarapiquí is one of the most backward regions of Costa Rica, socially speaking, but it holds great potential in the rural tourism cluster. Many people are involved in the project, including business owners, young people and children. Areas of action include hotels, export, handicrafts, transportation and other services.

It is a useful example and clearly shows that the challenge is to link, promote and set limits. Unfortunately, many projects overlook the matter of knowing our limits. Visitors attracted to rural tourism want space, peace and quiet, alternatives and diversification, and sometimes we forget that available offerings have limited capacity. It would be wonderful if we could bring 25 million tourists into Costa Rica, but quite likely they would never come back. This is why the first step in planning is to set limits, define a ceiling based on existing capacity to serve customers. Tourists are looking for quality and added value.

In closing, I would like to emphasize certain factors of success in financing value chains:

- Willingness (culture and attitude)
- Immediate action, with a long-term focus
- Many pitfalls: not a single-variable undertaking
- Build up rural tourism, export and diversification, using agriculture as input
- Introduce information and communication technologies
- Combine financial and nonfinancial services

All this requires a new culture and attitude. No planning program in this country has considered such factors as services, basic non-quantifiable needs, social fit, self-esteem. We need to salvage this kind of mentality because in a globalized market, the ability to take action and meet objectives is fundamental. This is what business training needs to encourage. It is not a matter of some identifiable variable; in reality, the potential pitfalls are many. This is why the promotion of agricultural linkages and rural development in general requires support far beyond mere financial services. Non-financial services are also critical. We need to promote them and make them part and parcel of all these

development processes, with a special focus on incorporating the use of information and communication technologies.

## E. UNCTAD

Leonela Santana

Traditional methods of financing agriculture begin with the formal sector, including both government entities or programs and private financial intermediaries. The informal sector (friends, relatives, moneylenders) plays a role as well, along with the semi-formal sector made up of credit unions, community funds and savings and loan cooperatives.

With the liberalization of agriculture, governments began to eliminate their production and marketing agencies, and state credit programs began to dry up. When the private financial sector shied away from the risks of agriculture and chose not to meet demands for financing, agricultural producers lost much of their access to credit. Many countries now have a nontraditional alternative, using different kinds of arrangements. The rest of this section will introduce these forms of collateral-based financing.

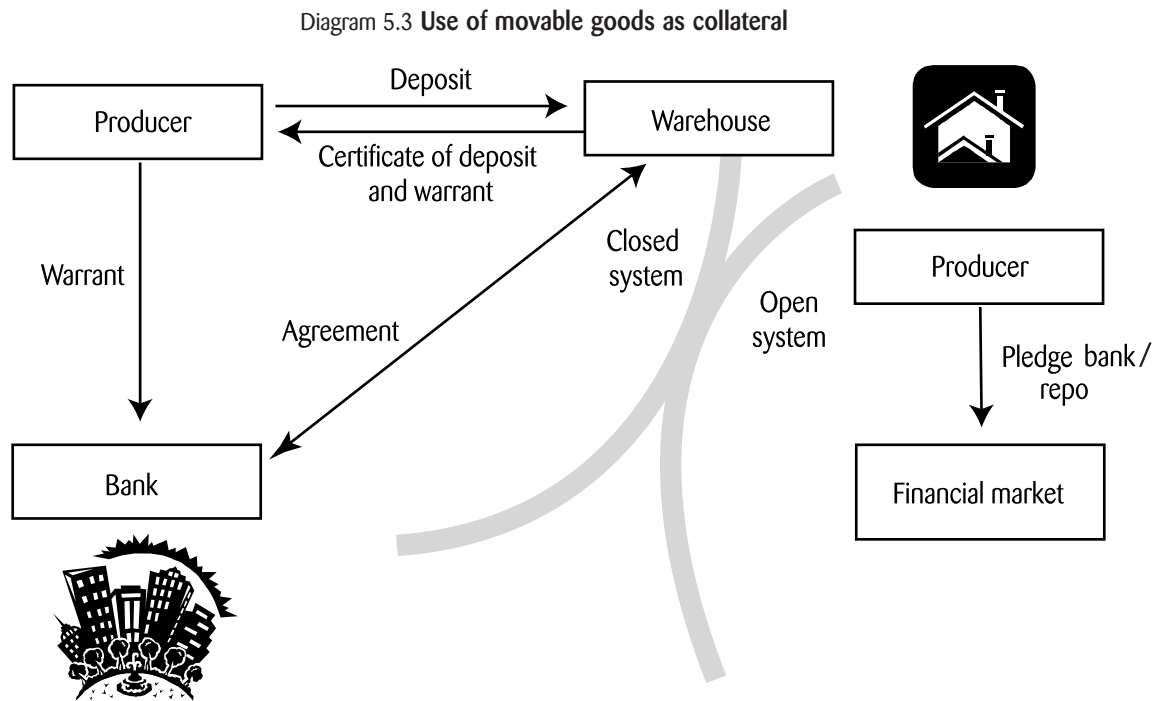
### Collateral-based financing

The best-known forms of collateral-based financing use real estate as security or collateral. Under these credit programs, credit recipients mortgage their fixed assets such as plantations, plants or storage facilities.

Collateral may also take the form of goods and chattels or personal property, including commodities, livestock, forest products, manufactured goods or minerals, deposited in a warehouse as described in Diagram 5.3. The receiver of the goods issues a warehouse receipt certified for this purpose. In Latin America, these are two-part documents: (i) the warehouse receipt itself, confirming that the item has been received in storage, and (ii) a warrant or chattel bond that represents ownership of the item stored. Commodities can be converted into cash with the use of a mechanism for financial transformation that exchanges goods for paper.

This finance mechanism offers a number of advantages:

- Default rates on payment of non-real estate collateralized loans tend to be low. The borrower (producer) repays the loan with earnings on sale of the product.
- If the borrower, or depositor of the merchandise under warrant, does not pay, the creditor can call on the warrant company to execute the good given as security, normally by means of public auction. If the law makes no provision for such a measure, the alternative is “repo.”
- If anything happens to the goods on deposit, the warehouse assumes responsibility.
- In the case of disputes between creditors, the law grants precedence to a title of ownership.



SOURCE: Leonela Santana, Seminar presentation.

Colombian Livestock Bonds serve as a useful example of this arrangement:

- The Exchange designed the model. It selects regions (based on security and a tradition of developing animal fattening systems); it selects ranchers (experience, specialization in animal husbandry); it selects ranches (infrastructure, pastures), and it selects animals (branded and by weight).
- It then signs irrevocable contracts that yield ownership rights on unfattened animals and commit ranchers to fatten them by grazing over the next 11 months at the most.
- Overcollateralization: bonds are issued for 75 percent of the value of the assets.
- Insurance against theft and terrorism, independent inspection and oversight and guarantee (100 percent of value) for asset management
- Ranchers can repurchase the animals (repo) or take them to auction at the Exchange.

Financing through collateralization of personal property poses an interesting opportunity for banks, in three ways:

- i. It replaces part of the asset management for companies active in the commodities sector. Many companies have much of their working capital tied up in stock –commodities, income, replacement parts, merchandise ready for shipping. By working with an independent overseer,

the bank can more effectively manage working capital needs, thus freeing up the company's capital. In many cases, the bank can also refinance itself on the international market.

- ii. It gives a mandate for "independent collateral overseers," or *collateral managers*, so that instead of waiting for a client, a bank can approve an independent manager (for example, storage plants or specialized firms) up to a certain credit limit. Then the bank can announce that, on a first come, first served basis, companies (or producers) that deposit commodities in the warehouses controlled by collateral managers can obtain loans for up to "x" percent of the value of the collateral, at a given rate. This means that the collateral managers can serve as agents of the banks.
- iii. It creates the possibility of securitizing assets. Institutional investors, both local and international, may like to invest in bonds backed by a continuously renovated portfolio of warrants (chattel bonds)/repo's. This opens the way for off-balance-sheet loans and for gaining access to low-cost, long-term sources of financing.

Finally, it is important to understand that, even though globalization and the liberalization of agriculture have impinged on the role of the State, governments can still serve as facilitators by providing: (a) efficient rules and regulations, (b) stable agricultural policies and support for sustainable development, (c) a coherent legal system, and (d) active participation in developing knowledge of these techniques, including the sponsorship of pilot projects.



# 6

## TECHNICAL ASSISTANCE, RISK MITIGATION AND ACCESS TO FINANCIAL SERVICES

---

*Julio Flores, Andrew Medicott, Peter Torrebiarte and Anita Campion*





This chapter will examine several real-life technical assistance programs designed to help the members of agriculture chains build up their operations, reduce risk and thus improve their access to financial services. In some of these cases, a single entity lends technical assistance, financing and marketing services. Others involve training programs that teach management and production skills, and while lacking any direct tie to a financial institution, nevertheless improve creditworthiness, as explained in Chapter 3.

## **A. Fondo de Desarrollo Local**

Julio Flores

This section is divided into three parts. The first gives a general description of the Fondo de Desarrollo Local (FDL). The second explains how the Fund visualizes the subject of agricultural value chains, technical assistance and marketing. The last section gives some examples and indications of how the program is working.

### **1. History of the FDL**

The Fondo de Desarrollo Local (Local Development Fund) is a non-profit association created in 1990 by the Instituto Nitlapán, a research and development center of the Universidad Centroamericana. At the time the program was created, Nicaragua was in the midst of a major political and economic transition. Sweeping transformation in the country's economic structure and financial sector led to the creation of a private banking industry, and state banks gradually shut down as a result of their own inefficiency and because the economic model had changed.

The Instituto Nitlapán, whose mission consisted of research and development projects, watched as these changes in the economy created a wide gap in financing, especially in the rural sector. Agriculture continued to be in the hands of thousands of small- and medium-scale land-owning

farmers, but services formerly available to these farmers and tailored to their needs were rapidly disappearing.

In response, this university-affiliated institute decided to set up a professional microcredit institution with a particular focus on the rural sector. Its goal would be to fill the financing gap that had cracked open during those years as a result of structural changes.

The institute used an already existing financing program, but starting in 1997, initiated proceedings to change its legal standing. The redesigned FDL acquired a new governing structure and transformed into an institution specialized in microcredit, primarily to serve the rural sector of Nicaragua. Nitlapán continues to be active in research activities, and it organizes nonfinancial services for the rural sector in close association with the micro-credit work of the Local Development Fund.

As the structural changes took hold, the Fund decided to focus its work in rural areas because of the high development potential there. Nicaragua is still an eminently agricultural country, and much of its gross domestic product comes from agriculture.

In the second half of the 1990s, the FDL tested a new method for working with the agricultural sector using methods unlike those of the banking sector. It demonstrated that farm credit is a viable undertaking that offers financial sustainability combined with an impact on development. In short, the FDL emerged as a sustainable credit entity able to serve thousands of small farmers who formerly had no access to credit.

As of April 2006, the institution had 32 offices nationwide and was operating in 14 of Nicaragua's 17 departments. It had a portfolio of US \$36 million and more than 52,000 clients receiving its services all over the country, 60 percent of them women. It is considered Nicaragua's largest farm credit institution, holding 70 percent of the total rural portfolio and 57 percent of the loan portfolio for agricultural production.

The distribution of the portfolio by payment calendar is especially revealing: 42 percent of the loans have terms of less than 18 months, 30 percent are loans of up to 24 months and nearly 25 percent have terms of 25 months or more, mostly to finance investment in production sectors and especially in agriculture.

## 2. Value chain approach

In addition to its research work, Nitlapán currently runs development programs that emphasize training and technical assistance for clients interested in obtaining FDL financial resources for agricultural production.

Nitlapán also has programs for land titling, a very serious problem in the Nicaraguan countryside. Nearly 50 percent of small farmers lack title to their land, which limits their access to services and long-term loans. Sixty percent of Nitlapán's technical assistance programs are financed with resources

from current FDL budgets, while the other 40 percent comes from resources that Nitlapán obtains through various cooperation agencies. The Fund invests six or seven percent of its annual budget to cover this 60 percent share of the costs for technical assistance to producers.

What is the reasoning behind this? Small-scale producers generally have limited access to services and market information, especially those who are very remote from cities and located in far-flung communities. The existing services market is imperfect, fragmented and served by very few government institutions. This holds true particularly for technical assistance and other necessary services such as roadways and infrastructure.

The production sector targeted by the Fund needs to adopt better practices if it hopes to compete, even if this means extensive reconversion. Some cases require technology upgrades to improve production activities, and many others need to diversify their product lines. The looming Central American Free Trade Agreement with United States will affect some agricultural activities more than others; many producers will find themselves with expanded market opportunities. This type of support will make it possible to carry out profound reconversion so that the largest possible number of farmers can seize newly emerging opportunities.

We have also heard in this Seminar that credit alone has little impact, as farmers need efficient access to other services as well. The FDL has therefore built partnerships with various institutions, especially its mother institution, Nitlapán. It has vigorously pursued other partnerships as well, including:

- Comercializadora Atlantic, a program that combines FDL credit for coffee growers with Atlantic coffee marketing services.
- Clusa, a company that lends training and technical assistance to growers of green vegetables and plantains, with FDL financing.
- TechnoServe also provides technical assistance for vegetable and plantain growers, while the FDL provides credit.
- Servitec offers technical assistance for livestock producers.
- INTA, Aldea Global, Nitlapán. Four institutions recently created a partnership that included the national agricultural research bureau (Instituto Nacional de Tecnología Agropecuaria, INTA), to verify and certify bean seeds. Aldea Global does the marketing, while Nitlapán gives technical assistance and the Fondo de Desarrollo Local offers credit.

Plans for 2007 include a project with 600 producers in the northern zone of Nicaragua. The FDL continues to develop financing arrangements for beef, dairy, coffee, vegetables and red beans.

### 3. Examples of financial products

In order to have a greater impact on development and farmer training, the FDL created a portfolio nearly two years ago, called “financial products for development,” to finance working capital for producers. More recently, it added credit for livestock investment, called the “green package.” Producers receive training and technical assistance in eight different subjects. They learn to replace their extensive livestock management systems with semi-extensive systems, both for beef and dairy production. They use techniques such as the introduction of forage trees, feedlot rotation, planting improved grasses, haymaking, and acquiring new tools such as grass choppers and better cattle pens. The Fund offers loans with suitable payment terms to facilitate needed investments. Irrigation equipment is available for lease to small farmers, who also receive technical assistance in handling the equipment, identifying sources of water and diversifying production, especially with green vegetables.

A credit program targeting poor rural women organized in solidarity groups also includes technical assistance. Most of these women receive two or three working capital loans before seeking investment credit.

The FDL also offers working capital credit for small-scale, high-elevation coffee growers whose farms are located over 1,000 m above sea level. This elevation, in combination with the right variety of coffee, qualifies growers to deliver specialty coffee at a premium price. However, their current production practices are detrimental to coffee quality, and by the time their products get to market, the price advantage is gone. The partnership provides them with technical assistance and teaches them to make changes in their handling methods so their coffee will be eligible as for the price premium. The credit portfolio consists of 18,000 clients. Of these, 2,000 joined in 2005 with these development products.

The livestock sector in Nicaragua generally features extensive production systems, good prices for beef and dairy and healthy demand on the domestic and external markets. However, production needs to become more environmentally friendly and producers should develop higher quality standards.

In its target areas, the FDL has promoted these changes in beef cattle production, encouraging breeders to adopt semi-intensive management practices. The Fund offers loans specifically tailored for reconversion processes. Nitlapán lends technical assistance and follow-up and markets through a contract with the industrial plant. The plant pays a price premium for high-quality stock fattened under the faster systems introduced through the project. All this firms up the organization of the production chain and leads to more environmentally friendly her management practices.

The agribusiness that collects milk in Nicaragua usually buys from large producers through high-volume collection centers, while thousands of small-scale producers have problems delivering their product. So Nitlapán organized a collection company, the FDL provides financing, and farmers receive training to deliver high-quality milk. As a result, larger volumes are available in one place, the processing plant is now willing to send its own trucks to collect the milk, and farmers receive stable

prices all year long. The challenge is to provide the technical assistance farmers need to deliver a high-quality product, and to help small-scale producers become organized. This is something the agribusiness definitely cannot do so.

## **B. Rural Economic Diversification Program**

Andrew Medicott

The Rural Economic Diversification Program (RED) is a technical assistance project financed by the United States Agency for International Development (USAID) and implemented by Fintrac Inc. It is a new program that will remain in operation until 2008 to tackle some of the problems of traditional agriculture.

Traditional farmers in Honduras generally plant any which way, with no use of technology. This behavior is common in most countries of Central America, although Costa Rica appears to have regions where small farmers have adopted other practices. Working near these traditional farmers are a few producers who practice agriculture in protected environments with high-technology greenhouses. Financial entities target producers who lie somewhere in between these two extremes. Some have irrigation and others have greenhouses, but they often fail to use them effectively. Traditional agriculture commonly produces low volumes with poor quality and inadequate customer service. The sector is plagued by a perception that there is no market, vulnerability to catastrophic losses due to pests, floods and drought, lack of financing, planting by tradition, no records and unawareness of real cost.

The program works with traditional producers interested in making the transition to a more professional form of market-driven agriculture that uses operating plans of several years' duration, technology to maximize yields, cost reduction methods, crop diversification, markets and buyers, access to financing and recordkeeping.

### **1. Background and scope of the project**

The RED project is a continuation of the Center for Agribusiness Development (CDA) that began in 2000 and lasted a little more than six years. Both projects have pursued the same central goal: to support economic development through nontraditional agriculture.

The CDA worked with fresh and processed products, seeking to increase farmers' gross sales and net income. It focused on smoothing income distribution over the course of the year, improving productivity and reducing costs, thus helping producers, exporters and processors to become more competitive.

In 2003-2006, the CDA reported accumulated new sales of a little more than US \$78 million and generated 8,300 new jobs. Clients saw their sales increasing by an average of 192 percent, ranging

from extremes of 15 to 600 percent. Clients invested more than US \$18 million in equipment over the three years, not including production costs, and boosted their yields by 25 to 200 percent.

The RED, a continuation and expansion of the CDA project, has added other sectors and activities in rural areas. In particular, it has extended the work to include linkages with other suppliers and participants in the value chains. It is mainly a technical assistance project, focusing on five main areas: marketing, post-harvest handling, processing, education and information technology. In each of these areas, it teaches producers to develop business plans, manage cash flows, work with market intelligence and research, and more.

The RED project has no credit fund, as its avowed specialization is not moneylending. As part of its emphasis on chains, it coordinates with financial institutions and helps the partners to develop. All members of the value chain need to take part in technical assistance activities, including financing institutions, input suppliers, equipment vendors, research, buyers and shippers.

RED clients run the gamut from small producers with annual gross sales of US \$2,000, to large companies that sell as much as US \$8 million. The smallest producers are farming half a *manzana* of land, or 3,500 square meters, while the largest have from 500 to 600 *manzanas*, as much as 400 hectares.

The project is active in 16 of the 18 departments of Honduras and covers a wide range of activities. As will be explained later, it places most of its emphasis on production systems in which producers adapt and plant what the market wants. Farmers may begin with a single product, such as lettuce, and later add a variety of other crops. RED operations take a long-term approach. Most traditional producers focus on a single crop and think mostly about what they are about to plant; they are not thinking about what to plant a few months later or next year. These farmers need to make investments to improve the operation of their farms; and because of their investments and the depreciation of their equipment, they need to start thinking about the long term.

The work of RED, summarized in a single sentence, is “to professionalize small- and medium-scale farmers and processors.” By professionalizing their operations, these producers can gain access to markets and financing and can have more profitable farms.

The project promotes the same technology used by large producers. Indeed, if small- and medium-scale producers hope to compete head to head with their larger neighbors, they need to use the same technology. Ultimately, the difference does not lie in the technology, but only in the scale. Small- and medium-scale producers have also penetrated local and export markets by building linkages with large and medium-sized companies, both for fresh produce and for processed products.

## 2. Production systems approach

Why the focus on production systems? Farmers claim their two biggest problems are lack of market and lack of financing. But what is the root of the problem? Quite simply, farmers go out looking for markets as soon as the harvest comes in. When they show up, they find nothing but problems because buyers pay what they please, buy less than expected, or want nothing at all.

A closer look reveals the real problem: lack of planning. If we know who will buy our crops before we even plant, if we have contracts or sales agreements so we can plant what buyers want, then we see clearly that the market is not the problem. The focus needs to be on production. For example, the RED Project has one person in marketing and 18 agronomists in the field, because the hardest challenge is to produce what buyers want, “when they want it, how they want it and as much as they want.”

Producers also complain about problems with credit. We have been hearing in this Seminar that financing is not the only issue. We can lend money to farmers, but if they lack technology and markets, they will always lose. This is why RED believes that technology comes first, together with the market. Once we have both, we can lead producers to the bank, but not before. That is, once they are certain they can handle the technology and meet their obligations, financing follows naturally.

For example, RED Project farmers receive technical assistance in the following subjects:

- Profitability analysis (level of technology, crop selection, proper use of production indices, investment plan, market knowledge)
- Risk analysis (project feasibility, location of production, experience, market)
- Contingency plans (breakeven point, developing scenarios and procedures for each case, good measurement parameters)
- Production systems (mechanization, cost reduction, production efficiency, post-harvest management and marketing)
- Farming practices (soil preparation, windbreaks, seedbeds, pruning, drip irrigation, nutrition, plant protection practices)
- Certifications (Eurep, BRC, ProSafe, SCS)
- Input management
- Environmental protection

These changes are introduced gradually. As was said earlier, RED Project clients generally begin with a single crop. By working with production systems and adopting modern technology, they can incorporate other crops fairly easily as they acquire experience and receive technical assistance and training. Crop diversification places producers on a more sustainable footing by reducing market and production risks. At the same time, it allows many farmers to maximize the use of their land and

continue to produce all year round. This increases gross sales, reduces fixed costs per individual crop and provides uninterrupted employment.

## **C. Starbucks Coffee Agronomy Company**

Peter Torrebiarte

This section is divided into two parts. The first explains why a coffee buyer and roaster is attending a seminar on financing agricultural value chains. The second introduces the subject of sustainability. Basically it discusses an integrated management system built on several different pillars, including the Farmer Support Center and a buying program known as “C.A.F.E. Practices.”

### **1. Starbucks and agricultural value chains**

The mission of this global company is to establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining an uncompromising adherence to six “guiding principles:”

- Treating associates with respect and dignity
- Diversity
- Excellence
- Customer service
- Communities and the environment
- Profitability.

When company executives first developed these principles, they said they would rigorously adhere to the first five, knowing that the sixth would naturally ensue. This is what Starbucks tries to do –grow responsibly.

The company consciously seeks out a wide diversity of suppliers, which in the coffee market is easy to do. It currently buys coffee in more than 127 countries, the majority of it from Central America. The company has developed a detailed set of socially responsible standards. Starbucks operates supplier certification programs both for agricultural products (C.A.F.E. Practices) and for non-agricultural products (such as glasses and napkins used in the restaurants).

The Starbucks company has 11,800 shops all over the world, where 112,000 employees serve approximately 35 million customers walking through its doors every week. The company does not buy from all coffee producers, but it is interested in developing a direct relationship with its growers, and this is something it is trying to strengthen.

The industry where Starbucks operates, coffee production, consists of more than 25 million people all over the world. Fifty percent of the world’s coffee comes from small-scale producers, as occurs with



other agricultural products as well, and 80 percent of the coffee comes from Latin America. Starbucks itself buys 70 to 80 percent of its coffee from Latin America, selecting only arabica coffee in what is one of the most volatile commodity markets in the world. Coffee prices have been experiencing a marked downward trend since 1997, with a slight rebound only recently.

Coffee has traditionally been purchased through commodities exchanges at market price plus a markup for specialty coffees or minus a markdown for less-than-fine coffees. The company could have prospered financially and made a great deal of money by following this purchasing model. However, more concerned about allaying risk, it decided to develop a different arrangement and buy for a fixed price negotiated directly with farmers. The idea is to work out a price that is fair to producers regardless of current trends in commodity markets. For example, in 2005, Starbucks paid an average fixed price of US \$1.28 per pound FOB, about 23 percent higher than the average price during that same period on the New York futures market.

## 2. Sustainability

The company understands sustainability as integrated management, including the following factors:

- i. *Premium prices.* If it could do nothing else, the most important gesture the company can make for small farmers, and coffee growers in general, is to pay a premium.
- ii. *Certified and conservation coffees.* In 2005, Starbucks purchased 11.5 million pounds of Fair Trade Certified™ coffee, 9.2 million pounds of certified organic coffee and 1.9 million pounds of shade-grown coffee. The latter, known as conservation coffee, came from projects managed by Conservation International in Perú and México.
- iii. *Access to credit.* Starbucks was interested in supporting farmer access to financing but did not wish to do so directly. It decided to invest in such organizations as Verde Ventures, EcoLogic Finance and Calvert Foundation, whose mission is to finance cooperatives of coffee growers. Although not necessarily cheaper than bank loans, this credit is much more flexible. Farmers need only show their sales contract with Starbucks to be considered creditworthy. It is typically very short-term credit for survival until harvest. In several recent cases, farmers have also used credit to invest in infrastructure and to improve wet processing equipment.
- iv. *Social programs.* The company supports social programs all over the world, especially in health and education. It is also involved in projects to build production infrastructure.
- v. *Farmer Support Center.* The Farmer Support Center is a regional office located in Costa Rica. Its purpose is to guarantee a steady supply of high-quality coffee to sustain the company's rapid growth. Instead of taking the easy route of pressuring current suppliers to increase their production, even clearing forests if necessary, Starbucks has preferred to seek out producers already located at the right elevation, with the right microclimate, who are growing arabica varieties but have not received technical assistance. These farmers know how to grow high-quality coffee, but they never had a buyer who would pay enough of a premium to make investment worthwhile.

- vi. *C.A.F.E. Practices*. This performance-based incentive offers preferential purchasing. Anyone can take part, including large estates, farmer associations, processors that sell on the market, and cooperatives. Potential members need to meet prerequisites involving coffee quality and financial transparency. When coffee fails to meet quality standards, it does not fetch a price premium, and sellers are unable to pass higher prices along to farmers. Moreover, there is no sense in paying a good premium to the exporter or the manager of the cooperative, unless the money actually benefits farmers. Finally, the company considers a number of factors for those who wish to become part of the C.A.F.E. Practices program. These include social responsibility, working conditions, occupational health, decent wages and environmental standards, both on the coffee farm and in the processing plant.

In the same vein as Andrew Medlicott explained for Honduras, one of the main tasks that Starbucks has undertaken is to help small farmers become more orderly. Many of them display good practices, but they are not systematic. Coffee purchases through these specific programs have been growing. For example, in 2005, 24 percent of the company's total purchases took place under the C.A.F.E. Practices arrangement, and this figure is expected to grow to 50 percent in 2007.

## D. Agromantaro

Anita Campion

This section presents examples and lessons learned from projects and studies conducted in Perú by Chemonics International with financing from USAID, particularly in the artichoke value chains. Perú has been growing strongly in recent years, but most of the people in rural areas register high levels of poverty, so there is still much room for growth. This is reflected in the financial sector, where only three percent of formal credit goes to agriculture. Many banks claim outright that they prefer to avoid agricultural financing altogether, and the few that are willing to get involved work only with medium-sized and large agribusiness. A number of rural banks and microfinance institutions are starting to appear on the scene, but most continue to concentrate on underserved urban areas.

Most farmers have from one to five hectares of land, generally without title, and a poor credit history. Government interventions have worsened the situation of agricultural financing through such programs as "agricultural rescue" for the banks and subsidized loans by the Banko Agrario.

### 1. The artichoke market

Worldwide demand for processed artichokes has more than doubled over the past 20 years. The largest supplier is Spain, which covers 92 percent of the market, followed by Italy, with five percent. Perú has been trying to capture part of the European market and is well positioned to do so, given its labor cost advantages.



To begin with, retail sales actually take place outside Perú, in the United States and Europe. Large wholesalers may offer some supplier financing for retailers, but the purpose of the diagram is to emphasize what is happening in Perú.

The representatives of wholesalers operate in Perú directly with processors and prefer to work with a small number of large companies rather than many small ones, so as to assure a steady supply. They offer a contract specifying the exact price they will pay for the largest volume of processed artichokes their suppliers can produce. The largest supplier in Perú is Viru, followed by two medium-sized suppliers (Agromantaro and Talsa) and, in a distant fourth place, Procesadora.

Because processors have a contract and a fixed price, they know exactly how much they can pay farmers for the product. Much like wholesalers, they would prefer to work with a few small producers, but because most of the land is divided into small parcels, processors generally buy from small farmers. This crop is new, unfamiliar and apparently risky, so processors need to go out and convince small farmers to produce for them. For this purpose, they offer:

- A contract
- A fixed price
- Seedlings
- Technical assistance.

The idea of the seedlings and technical assistance is to minimize production risks. Farmers do not pay for seedlings until harvest, so in this sense, the processor is involved in financing the crop. Fertilizer companies supply farmers by selling to independent distributors and offering them volume discounts and commercial credit, just as they do with the “large” producers. The distributors then extend commercial credit to “small” farmers for payment a few months later when the harvest comes in. They also provide free technical assistance on optimizing the use of inputs, which in turn reduces the risk of default.

Thus artichokes serve as a good example of financing and technical assistance within a chain structure. Very little formal credit goes to agriculture in general. However, when word got out that this chain was working well, non-banking financial institutions began to take an interest, especially rural credit unions, municipal credit unions and the Edpyme Confianza. They started to offer direct loans to small farmers, thus releasing processors to use their capital for expanding their own investments.

Table 6.1  
Availability and need for financing

PARTICIPANT IN THE VALUE CHAIN	FINANCING WITHIN THE CHAIN	FINANCING BY FINANCIAL INSTITUTIONS	PENDING NEEDS
Wholesaler	Contracts and advances to processors	Bank loans	NA
Processor	Credit sales and technical assistance to farmers	Bank loans, 100% collateral	Long-term investment financing
Farmer	NA	Contract-based loans from NBFIs	Long-term financing for tractors, irrigation and land
Input distributor	Credit sales and technical assistance to farmers	NA	Short-term loans for working capital
Commercial farm supply store	Volume discounts to distributors and large farmers	Bank loans, 100% collateral	NA

SOURCE: Anita Campion, Seminar presentation.

Table 6.1 clearly shows where current financial linkages are, both inside and outside the value chain. It shows, for example, that processors had some access to bank financing, but not as much as they would have liked. Collateral requirements were so stiff that company employees found themselves drawing on their personal assets. The table also shows unmet needs. The most important one, reflecting other cases described in earlier chapters, is the need for long-term financing for investment and medium and long-term loans for fixed assets, such as tractors and irrigation systems.

## 2. Agromantaro

As was said, Agromantaro is the second or third largest artichoke processor in Perú. In the beginning it produced asparagus. At one point, it had considered expanding into artichokes in coastal areas, but with support from the USAID/Chemonics International Poverty Reduction Assistance Project (PRA), the company decided instead to invest heavily in the highlands. In this region, artichokes can be grown nine months of the year, whereas the growing season lasts only four months near the coast. When the PRA had talked with wholesalers in the past and asked them to explore other opportunities in Perú, artichokes had come to the fore.

PRA technical assistance providers knew the farmers and were familiar with local cultural considerations of which Agromantaro representatives were unaware. Their support was critical for convincing farmers to take the risk of cultivating artichokes, thus overcoming the first great obstacle. Eventually Agromantaro began to hire several of these technical specialists to work directly for the company. After two years, 200,000 additional workdays had been generated.

### 3. Lessons learned

Many of the projects and many of the countries here seem to be drawing the same lessons. Below is a summary of what we have learned through the projects in Perú.

- Participants in agricultural chains are motivated more by the desire to expand markets than by making profit on financing. In other words, they end up providing technical assistance and loans in order to boost production so they can buy or process larger volumes or sell inputs to more farmers. Unlike formal financial institutions, they are not overly concerned about profiting from their financial operations, and even see them as zero-cost propositions. Certainly this is not the case, but in any event, they do not see their loan activities in the same light as a financial organization would.
- Farmers need access to a “complete package” of technical assistance and financing services. Financing has been available in Perú for a long time, but it did not solve all problems. Technical assistance has also been available without financing, and while it is helpful, its impact is necessarily limited. Instead farmers need comprehensive support in order to enjoy all the benefits of an upgraded chain, even if this means changing their way of doing things and learning to grow nontraditional crops.
- Cooperation among companies can make the value chain more competitive. If all participants in the chain join efforts, they can make a big difference, and their overall chain will become more competitive. A leader in the chain may serve as the catalyst. For example, an association of exporters that is involved from the very beginning of the chain may share information about which seeds are best in each region, generally creating systems for the free flow of information.
- A lack of financing may prevent the value chain from becoming competitive or prevent participants in the chain from seizing opportunities that arise unexpectedly or temporarily.
- Companies in value chains are often better informed than financial institutions. They have market knowledge. They can anticipate changes. Processors get to know farmers and build connections with them. All this helps reduce risks in ways that financial intermediaries cannot.
- Financing is often seen differently when it is supplied within the value chain, than when it comes from a financial entity. Loan conditions often prove difficult to quantify if financial products are subsumed within other non-financial services. As a result, the costs of external financing do not compare easily with the costs of financing provided within the value chain.
- Financing through the value chain tends to take the form of short-term loans for working capital more than long-term financing for fixed assets. Even so, this seminar has offered some encouraging examples of value chains that now offer more medium- and long-term financing for fixed assets or investment.
- Value chains frequently lead the way for formal agricultural credit operations. When successful financing activities begin to grow within a value chain, the demonstration effect attracts financial intermediaries into direct agricultural credit. Part of this outcome is facilitated by the use of

contracts, but in many countries, even though contracts exist, they are not easily enforceable. What really makes the difference, as Claudio González Vega explained in his presentation (see Chapter 3), is a transparent, stable, functional relationship between members of the chain.

I would like to close with a question. Should we be developing ways to induce formal financial institutions into offering wider financial services? Or instead should we keep our focus on obtaining financial services per se, regardless of whether they come through the value chain or from outside? In either case, the ultimate goal is to stimulate markets and create more employment opportunities. The basic need is to bring about more medium- and long-term financing so that value chains can seize any opportunities that may come their way.





# 7

## DIALOGUE WITH DONORS AND INTERNATIONAL ORGANIZATIONS

---

*Calvin Miller, Geoffrey Chalmers, Mark D. Wenner, Juan Fonseca,  
Ronald Martínez, Raul Hopkins and Pauline Tiffen*



The intent of the seminar session reflected in this chapter was to encourage interaction with representatives of international cooperation. The idea was to: (i) give officers from these organizations the opportunity to enlighten participants about grants or financial projects and programs in the field covered by the event and in related areas, and (ii) give speakers the opportunity to learn more about the needs of participants in agricultural value chains for consideration in designing future international organization projects. The presentations are summarized herein.

## **A. Food and Agriculture Organization of the United Nations**

Calvin Miller

The FAO was created in 1945, and its headquarters is in Rome. It has 188 member countries, five regional offices, one of them in Latin America, and national offices in 78 member countries. FAO does not revolve around grantmaking, and in fact the few grants it does offer are limited to start-up projects and cooperation with governments. For the most part, it serves as an international technical agency. Other international organizations are much more active in financing, including the World Bank and the International Fund for Agricultural Development (IFAD); FAO frequently cooperates with them in a variety of projects.

FAO is organized into eight departments, each one with separate directorates or divisions. The Agriculture and Consumer Protection Department has a section called the Rural Infrastructure and Agro-industries Division whose goal is “strengthening services in agri-food systems.” This division helps member countries develop policy, strategy and methodologies appropriate for agricultural support systems and services. It also helps them with technologies for rural development, production and postproduction in agriculture and food. Its technical support activities basically take the form of applied business development with a focus on the agricultural, agroindustrial and livestock sectors, running the gamut from small farmers to large enterprises. The division has two broad services that

offer project intervention: (i) the agriculture and food engineering technology service, and (iii) the agricultural management, marketing and finance service.

The finance section concentrates mainly on agribusiness, with a focus on developing financing and value chains. The main activities in this area in 2006-2007 are:

1. Promoting competitive agroindustry: development and financing for the value chain, promoting a favorable environment, strengthening the capabilities of small and medium-scale agroindustrial and enterprises (SMEs) and assuring food quality and safety.
2. Developing rural infrastructure: models and good practices, planning, design, management and financing of rural infrastructure. This is a new area that will work together with rural stakeholders, especially in financing rural industry with a focus on agribusiness.
3. Improving income, employment and the livelihood of small farmers through two specific activities: providing small farmers with better services and upgrading their market linkages, and building their skills to diversify production, develop entrepreneurial activities and generate added value. A special program supports producers, both women and men, either individually or through their organizations.

Three working groups are engaged in activities with agricultural value chains: marketing, rural finance and farm management. Some of the recent activities of these groups are:

- Marketing group
  - Marketing extension services: a guide for extension workers, and training videos on horticultural marketing, grain marketing, costs and margins.
  - Market information: FAO-Agrimarket 3 is a set of software guides for developing and upgrading market information systems.
- Rural finance group
  - A study of linkages between rural financial agencies and non-financial stakeholders
  - Regional Agricultural Credit Associations (RACAs)
  - Publications
  - MicroBanking System, MBWin
  - Rural Finance Learning Center ([www.ruralfinance.org](http://www.ruralfinance.org)). FAO runs this project with funding from IFAD, the World Bank, GTZ and other organizations.
- Farm management group
  - Farm Management Systems series
  - Promoting diversification
  - Farm management training

- Agribusiness management training
- Analysis of farm production costs
- Initiative to strengthen farm-agribusiness linkages

Again, FAO is more a technical agency than a funding agency. Its field work includes, first of all, activities conducted in the framework of its regular program, especially technical assistance to member countries. In addition, research and dissemination take the form of studies, publications, expert consultations, events, statistical reports and monitoring of commodity markets. In the second place, it also conducts externally funded projects such as project design and implementation, emergency operations, special programs (SPFS) and the investment center (project identification and development).

FAO also offers opportunities for cooperation through publications and materials. People in the countries can submit specific requests through local FAO offices. In Central America, FAO is part of RUTA, along with IFAD and the World Bank. Finally, FAO also works closely with governments, and anyone can coordinate with a government to request support for specific projects, for policy development and review or for projects to improve the competitive environment.

## **B. United States Agency for International Development**

Geoffrey Chalmers

The United States Agency for International Development (USAID) works in more than 70 countries, with an emphasis on the least developed countries. It is active in nearly all the countries of Latin America except Argentina, Chile, Costa Rica and Uruguay. USAID works with grants for the private sector and civil society associations. To a lesser extent it also cooperates with governments, but as partners rather than direct aid recipients.

Interventions in areas associated with financing agricultural value chains are based on a conceptual framework that seeks to analyze and improve the entire chain so as to create wealth in poor communities. The agency is interested in everything from production to retail demand. Even though it keeps a view of the overall chain, it always focuses more closely on those sections of the chain where opportunities are few and wealth, elusive.

In this approach, it always emphasizes the concept of sustainability. As applied to interventions in value chains, sustainability means whatever remains behind after the initial subsidy with public resources is gone. Because its goal is for something permanent to remain after the intervention is over, it seeks out partnerships with local stakeholders, especially in commercial sectors, such as service providers. These are the links that will never disappear in the sector or in the country. The best prospects are commercial interests that have a lasting economic incentive to stay where they are, supporting the sector.

This is the conceptual framework within which USAID has developed what it calls a “financial lens.” First, it defines ways of intervening in a value chain. Then it examines where the different sources of financing are, both inside and outside the chain. It narrows its focus to identify gaps in financing, and then builds partnerships with many different stakeholders, both inside and outside the chain, such as financial institutions. This is another way to add a degree of sustainability. Instead of simply figuring out how to get some money to patch up such and such a chain, the idea is to dig a bit deeper and find sources of long-term financing.

At a third level, building on the foundations of the first two, it adds the rural sector. Many speakers here have already emphasized that rural financing is very different from simple farm finance, and USAID has been experimenting to discover how true this is. The two are very closely interrelated, as the world of agricultural finance is clearly inseparable from that of rural finance.

The problems of rural financing can be solved only if we understand the entire chain, which is broader than just production. Many households in rural areas also have financial needs. In the view of USAID, the two concepts need to be considered within the same framework. The two –agricultural and rural– overlap in many ways, and if we consider one without the other, we may miss opportunities to see interrelationships.

USAID classifies rural financial markets into three groups: (i) rural finance, which covers financial services in rural areas available to people at all income levels; (ii) agricultural finance, or financing for activities directly related to agricultural production, from the field to the market; and (iii) microfinance, or financial services for poor and low-income people. Although microfinance has much in common with rural finance, many microfinance activities are located outside rural areas. The same is true for agricultural finance, especially when it targets agribusiness, because some of this production takes place in cities and is no longer rural.

This means that the microfinance portfolio has relatively little agricultural content. One of the objectives of seminars such as this is to find ways of expanding the overlap between microfinance, agricultural finance and the rural sector.

USAID is active in the following areas: research, implementation and training. The three are closely interrelated, especially in the past five years and in the area of rural finance, where explicit attempts have been made to link them together.

USAID works with different partners and uses a variety of tools in two broad dimensions:

- i. *At the country level.* Because the agency is present in 70 countries, it is highly decentralized. The local office in each country develops a local strategy, generally of several years’ duration, defines programs for that country, and seeks out local partners.
- ii. *At the global level.* Here too, USAID is on the lookout for innovation and pilot programs. The objective is not so much to advance certain things in a given country, as to draw lessons and identify better practices that can be disseminated afterward to many other stakeholders.

It generally uses competitive bidding processes, especially for work at the global level. In every country where it works, USAID issues several calls to bid every year, usually for relatively low amounts.

Some of the global programs have only one strong focus –to learn from the experience, which is then documented in papers and findings and shared freely over the Internet at [www.microlinks.org](http://www.microlinks.org). The website contains two broad areas. The first, enterprise development, covers all kinds of chains with an emphasis on both agricultural and urban chains of small-scale producers. The second area is financial services, combining rural finance with other financial topics.

### **C. Inter-American Development Bank**

Mark D. Wenner and Juan Fonseca

The IDB group is divided into three parts:

- i. The Inter-American Investment Corporation (IIC), whose mission is primarily to serve small- and medium-sized enterprises in the private sector.
- ii. The Bank itself (IDB), whose clientele is mainly the governments of the countries of Latin America and the Caribbean, a total of 26 countries.
- iii. The Multilateral Investment Fund (MIF), founded in 1993 as a dynamic, innovative entity serving the private sector.

The Bank uses a variety of tools for its activities, especially loans through technical cooperation projects targeting governments in the region. The MIF has a very broad spectrum of intervention mechanisms: grants, equity investments, loans, guarantees, participation in investment funds, and more. The Corporation (IIC) has a much broader array of tools in its arsenal: loans, credit guarantees, issue underwriting, equity investment, quasi-equity investment, syndicated loans, participation in investment funds and co-financing with other entities.

In practice, IDB activities most commonly consist of financing public goods through governments, networks and trade groups. As an example, a project in Haiti lends financial support to the Ministry of Agriculture to build up its capacity for research and technology transfer to small farmers, extension services and health services.

The Corporation mostly targets the leader of the chain for its financing projects. For example, it often seeks out a large agricultural processor in the target country, on the understanding that this plant probably finances small and medium-sized farmers through contracts. The IIC offers short-, medium- and long-term financing under competitive conditions, as well as support to improve environmental impact, access to financing and corporate governance.

The MIF uses a more holistic, assertive strategy. It emphasizes financing and creating clusters and value chains. Its focus is more on how to optimize, how to associate producers, how to train them and how to coordinate the entire chain or cluster to make it more integrated and efficient.

The MIF decided to work with clusters to make its interventions more efficient. Each cluster is supported by one or two technical experts who pay regular visits to all the projects in the group, encourage the projects to share their experiences with one another, and facilitate implementation as much as possible.

The emphasis on groups or clusters of projects leads to better project design and implementation. It helps promote communication and exchange between agencies and sectors frequently facing the same challenges. It also brings implementing agencies together in a network to share experiences and resources. Finally, when projects are gathered into clusters, valuable lessons can be identified more easily, and provide useful feedback for improving the design of new projects.

The IDB group contains a fourth area relevant to this seminar, a part of the Bank itself, that works to support chains. It is the division of micro, small and medium enterprises that operates through the Social Entrepreneurship Program (SEP), previously known as “Small Projects.” Created in 1978, the program promotes economic development and social equity among poor or marginalized groups by financing small projects that lend financial, social and community development services efficiently and sustainably. It has a long history of financing small agribusinesses, farmer groups and associations or cooperatives of women. Over the past two years, it has changed its approach somewhat. Seven or eight years ago, it was financing many urban microfinance institutions (MFIs). Today, faced with the difficulty of locating rural MFIs, it has been financing value chains. The program portfolio fluctuates from year to year, depending on resource availability, and ranges from 13 to 25 projects with a value of US \$20 to 32 million.

The IDB uses three basic models for financing agricultural value chains:

- Credit funds
- Pre-financing for cooperatives or producer groups
- Loans to agricultural processors who subcontract small farmers

As an example of these models, it may offer a loan to a cooperative or small agro-enterprise that in turn sets up a revolving fund and extends its own loans to partners or nearby small farmers. Another example is support for EcoLogic, a financial institution in the United States specialized in sustainable trade. EcoLogic raises low-cost capital in the United States from socially responsible investors, usually at around two or three percent, and offers loans in Latin America at six or seven percent to finance organic coffee production. It also helps producers obtain certification and sell their products. The group works closely with Starbucks and Green Mountain Coffee, which are also working to consolidate the market for their group of farmers.



## D. Central American Bank for Economic Integration

Ronald Martínez

The Central American Bank for Economic Integration (CABEI) offers agricultural finance for projects designed to:

- i. Improve profitability of current activities
- ii. Develop and diversify production activities
- iii. Boost exports
- iv. Introduce technology changes
- v. Encourage processing and added value.

To become eligible, projects should ideally possess eight specific qualities:

- i. Profitability
- ii. Value chains
- iii. Economies of scale
- iv. Employment generation
- v. Attraction of investments and co-investments
- vi. Horizontal and vertical integration
- vii. Promotion and diversification of exports
- viii. Technology innovation.

As a concrete example, Costa Rica has a project that meets all these criteria. It is developing production in controlled environments, usually known as greenhouses, and featuring different kinds of technology that maximize and drive production and farmer income.

Controlled environments have proven successful in many countries, especially in Europe. When CABEI decided to bring the idea to Costa Rica, only one financial institution was interested. This country already has a large number of rustic or very rustic greenhouses, covering around 180 hectares of floor space and belonging to approximately 340 producers.

The project was a joint effort by an outreach institution –a local farmer association– together with a trader and supplier who plays a strategic role, CABEI, a financial institution, and advisory agencies sponsored by the Ministry of Agriculture and a government vocational institute, the Instituto Nacional de Aprendizaje.

The overall objective of the project was to build and operate greenhouses containing 102,000 m<sup>2</sup> of floor space for planting, developing, harvesting and marketing farm products. This is very easy to say but quite difficult to do.

The specific objectives were to set up production modules in controlled environments, meeting all requirements for legal compliance, certification, market standards and environmental protection. The products were not for local sale, but for an export market where standards were strict and unyielding. This called for very costly investments. No farmers could afford to run such a risk only to find that, having made the investment, their products were not eligible for international sale.

The second objective was to endow production units with sufficient working capital and infrastructure to develop the production process effectively. The third objective was to introduce green vegetables into markets in the United States and Canada. A final objective was to teach farmers entrepreneurial and technological criteria for quality and safety management, standardization and certification.

The project called for a total investment of US \$7.2 million, of which CABI provided 57 percent, producers, 26 percent and the financial institution, 14 percent. The remaining three percent came from the government in the form of technical assistance.

An experimental laboratory was set up to minimize risks. It ran for several weeks in an area selected specifically for its conditions. The idea was to discover what problems would likely arise for producers of this kind. It proved a useful technique for generating a first stage of development, which eventually gave the project the momentum it needed.

Despite these precautions, problems did crop up in the implementation process, some of them serious. Throughout the process, however, effective technical assistance was available, and indicators and standards were managed well. In the end, the project yielded many benefits. (i) It created high-quality jobs. (ii) It contributed to development in the region. (iii) Small farmers became involved. (iv) The project created, promoted and diversified export products. (v) It created multiplier effects. (vi) It developed production linkages. (vii) It attracted new investments. (viii) It developed horizontal and vertical integration. (ix) Finally, the project promoted technology innovation.

This project perfectly reflects the Bank's interest in working with small farmers and developing activities within the value chain structure. The chain was extensive enough to accommodate production, consolidation, marketing and consumption of the product, and it operated with the assistance of a financial institution and using inputs from suppliers and institutions, in this case from the Government.

## **E. International Fund for Agricultural Development**

Raúl Hopkins

The International Fund for Agricultural Development (IFAD) is a United Nations specialized agency that works to reduce rural poverty. Founded 28 years ago, it has 163 member countries. It is currently running 192 projects with a value of more than US \$6 billion.

Recent figures from the Economic Commission for Latin America and the Caribbean (ECLAC) reveal that 63 percent of the rural dwellers in Latin America and the Caribbean earn incomes that place them below the poverty line. It is important to remember what the Vice President of Costa Rica said about the pressing need for balanced development.

This international emphasis on reducing rural poverty is clearly linked to the subject of value chains. IFAD feels that the key to overcoming poverty is to treat rural poor as producers, as citizens with rights and responsibilities. The way for them to get out of poverty is by diversifying and increasing their production.

IFAD has set three strategic objectives for giving the rural poor new opportunities to escape from poverty:

- i. Capacity building for the rural poor and their organizations
- ii. Promote more equitable access to natural resources and technology
- iii. Increase access to financial services and markets

Financial services appear to be one of the core problems. In this field, the main instrument available to IFAD is its loan programs. As an international agency, it belongs to the countries, and they grant loans to IFAD under conditions that vary according to their per capita income. Of the US \$550 million disbursed annually, 90 percent takes the form of loans. The remaining 10 percent consists of grants in support of research programs and institutional development.

Something IFAD has learned, that has come up repeatedly in this seminar, is the importance of promoting high-quality investments. A dollar well invested with certain characteristics could be very profitable for society. International organizations do not have just one dollar to invest, but many dozens or millions of dollars, and unfortunately, many have been invested with very low productivity.

As for rural financial services and value chains, IFAD agrees that lack of access to financial services is one of the key reasons why rural poverty is so persistent. It originally believed that the cause of the problem was the dynamic created by state-owned banks. IFAD therefore involved itself in radical transformation or even removing the state from rural areas altogether; but the private sector did not move in as quickly as expected.

So are value chains an alternative? IFAD believes they are, but certain obstacles cannot be ignored. These include: (i) dispersion of producers, (ii) quality problems, (iii) lack of information, and (iv) high levels of risk. This means that in certain cases, the value chain approach can and must be supplemented with other mechanisms.

IFAD works with value chains in ways that resemble the work of micro-enterprise development projects. It begins by identifying obstacles, and depending on what it finds, projects may include activities for training, information and technical assistance to improve the operation of the chain.

With all this, IFAD has often observed a point that merits further discussion: the importance of social and institutional conditions. The way to reach large numbers of small farmers is by working through their own organizations. A concept that IFAD has used successfully in several projects is what it calls “economic corridors.”

Its experience with value chain projects has also yielded differentiated development by region. IFAD has seen significant progress in the Division of Southern and Eastern Africa and in some countries of Eastern Europe. Several countries of Latin America (Venezuela, Brazil, El Salvador and Perú) are paying more and more attention to linkages among different participants in a value chain.

These experiences have taught several lessons:

- i. Financial constraints are not the only limitation, and often are not even the most important one.
- ii. We still need a better understanding of the connection between types of value chains and poverty reduction.
- iii. Value chains and their financing mechanisms could become a tool for fighting rural poverty; but this calls for specific complementary measures.
- iv. Poor farmers face barriers involving product quality, standards and contract-based farming systems.

Finally, I see four possible areas for joint action by governments, donors and the private sector: (i) conducting pilot experiments; (ii) studying regulatory issues; (iii) supporting product-specific meetings between the private sector and farmers, and (iv) promoting an analysis of linkages between value chains and poverty reduction.

## **F. World Bank and International Finance Corporation<sup>1</sup>**

Pauline Tiffen

The World Bank has several programs in Central America. This presentation will discuss two of them. The first is part of the “Commodity Risk Management Group.” It consists of two components, climate risk and price risk, and specifically addresses commodity price volatility. The project has created a commodity exchange, which serves as an international benchmark.

The second is just beginning. Conducted in coordination with other international organizations under the rubric “Commodity Management Group,” it is a new program for parametric insurance in Central America. Financial institutions have been showing heightened interest in the region in recent months. They have now developed significant, very interesting models for offering risk management services.

---

1. Mrs. Tiffen was originally asked to present two sessions. For reasons beyond her control and that of the seminar organizers, these two sessions were combined into one, and as a result, part of the material prepared for this session had to be omitted.

Various case studies are available on the International Finance Corporation (IFC) website, and a consultant project is currently underway to collect information from stakeholders in Central America, to be used in designing a strategy for the next three years.

The Bank is also interested in playing a new, more intense role in coordinating production and marketing strategies for sustainable products in the region. It is building a “Central American Consortium” that will bring together all interested parties, and a management process is now operating for the overall sector. The first pilot study focuses on cacao cultivation.

The challenge is to move quickly and develop appropriate financing options at a time when new, attractive structural changes are taking place in the region’s cacao market. As we have seen, technical assistance projects are numerous. Some originated outside the region but have gained a foothold here; however, the sector still lacks a stable medium- and long-term strategy. The Bank also takes great interest in the coffee sector, which holds out many valuable lessons, both good and bad. We need to give these lessons their due weight when developing strategies to regenerate the industry.



# 8

## SUMMARY AND CONCLUSIONS

---

*Mark D. Wenner*





It has been a great honor for me to have participated in this very enlightening event.<sup>1</sup> I believe we are contributing to a change of paradigm. We are pioneers seeking a better tomorrow for the rural population of Latin America. The organizers have given me a particularly difficult task: make a summary and draw conclusions from the many excellent presentations and from the provocative comments made by our two rapporteurs. I will divide this summary into four sections: old and new realities, theory, promising practices, and most important, implications for the different stakeholders –governments, international organizations, farmers and financial institutions.

## A. Changing realities

In his keynote presentation, Ken Shwedel told us that the world really has changed and we need to adapt to the new conditions outlined in Table 8.1. I will briefly summarize the now-outdated conditions as they existed in yesterday's rural financial markets and the rural sector in general, and to which we had grown accustomed. Rural areas in many parts of the world witnessed famine and malnutrition in the 1960s and 1970s. The policy response was to focus strictly on production. Much research was done, many grants were made, a great deal of money was spent to raise the productivity of certain crops, without much thought about where to sell these products. Nor was anyone emphasizing product quality, product differentiation or environmental protection. These were not so important. In those days, agrarian structures were dualistic but chains were integrated for at least a handful of traditional crops, mostly due to heavy intervention by the State. The countries adopted agricultural policies that distorted everything, financial markets were repressive, and nationalized banks were everywhere. I can sum it up very briefly by reminding you of what Rubén Chávez of México told us –that UNIPRO was created after the elimination of the government marketing institution, CONASUPO.

---

1. This chapter is a literal transcription that preserves the oral style of the presentation.

In other words, for corn producers in México, the market was not some gringo in the United States or Europe; it was CONASUPO. I remember being here in Costa Rica as a Peace Corps volunteer in the 1980s. The corn farmers in this country had one market only– the Consejo Nacional de Producción, or National Production Council, a government marketing agency that set fixed prices for grain purchases. Government banks extended loans, and commercial banks had to meet maximum limits for lending to the specific crops.

Table 8.1

**The world of rural development yesterday and today**

YESTERDAY	TODAY
<ul style="list-style-type: none"> <li>• High rates of famine and malnutrition worldwide</li> <li>• Focus on production</li> <li>• Quality, environmental protection, safety and differentiation were not important</li> <li>• Dualistic agrarian structures and integrated chains</li> <li>• Distorted agricultural policies</li> <li>• Repressive financial markets</li> <li>• Presence of State banks</li> </ul>	<ul style="list-style-type: none"> <li>• Food surplus and trade flows growing every year</li> <li>• Focus on demand</li> <li>• Quality, environmental care, traceability, safety are paramount.</li> <li>• Dualistic agrarian structures and fragmented chains</li> <li>• Too few sources of price and market information</li> <li>• Financial markets liberalized but fragmented</li> <li>• Few financial intermediaries in rural areas</li> </ul>

SOURCE: Mark D. Wenner, Seminar presentation.

All this has changed. The world we live in today is a place of food surplus. The focus is on demand, with an emphasis on quality. We face consumers who have become very exacting, and among other things, this requires product differentiation. Consumers no longer care solely about the cost of the product, but also about its appearance, size, year round supply, fast delivery. High income consumers have no time so they are interested in convenience –pre-packaged ready to cook meals. In this new world, we are witnessing a major transition in agricultural systems and structures.

Unfortunately, dualistic structures are still common in Latin America and much of Africa and Asia. Poor people remain trapped in their poverty, while a few lucky ones have found an escape route by producing for nontraditional export markets. The bad news is that most of the chains are very fragmented. They are fragile, and I think the presentations over these past two days have clearly shown that they are still little more than experiments, or chains that are barely beginning to take shape. From INDACO in Perú to the programs in northern México, all of them are still nascent, having accumulated only five to eight years of experience. They are very young, and we have discovered that even the financial markets, having gone through liberalization, are themselves still very fragile and fragmented.

Even México's UNIPRO survives mainly on the strength of FIRA subsidies. We have seen the case of Banco Nacional here in Costa Rica. We are seeing the role of the United States Agency for International Development (USAID) and its subsidies to Fintrac Inc. in Honduras and the PRA project in Perú. We are also seeing a severe shortage of price and market information. It is in fact a very thorny problem, as this type of information is not flowing freely. Isabel Cruz and many others have pointed out the alarming lack of financial intermediaries in rural areas.

## B. Theory

We find it difficult to talk about new financing for value chains when no intermediaries are around. Because we live at a difficult time of changing paradigms, I would like to talk a little bit about theory to help us understand this awkward position.

Claudio González-Vega has enlightened us. I will summarize his presentation by saying that we can finance chains so long as we remember certain key variables:

- In-depth information about the chain
- Risk management systems that are more robust than the ones we have today
- Minimal transaction costs
- Effective chain governance. I think financial intermediaries shy away from producers who are dependent on an open market, a spot market. They really feel more comfortable working with someone who has a sales contract. They prefer a hierarchy in the chain, either explicitly or perhaps a quasi-hierarchy, with good incentives, either arising from the nature of the market structure itself, or based on a long-standing relationship. Perhaps you need to sell to this person, and there is no other way out of it, no escape (monopsony). In other cases you can assure repayment through a purchase order by an exporter or a processing plant. Bob Fries found it unfortunate that we said so little about contract enforcement, and indeed, the subject did not come up in the presentations.
- *Ability to develop partnerships.* Quite a few presentations placed great emphasis on the importance of developing partnerships –partnerships of all kinds, both vertical and horizontal.
- *Well-designed financial products.* Obviously, the financial products available at present are not good enough, and we face the great challenge of designing better ones. We need products that to serve the different interests and meet the many needs for managing risk all through the chain.

Farmers have three choices if they hope to survive and prosper in this world of globalization and market integration. (i) They need to fit themselves into dynamic, efficient chains in order to continue farming. (ii) They can migrate. (iii) They can try to shift away from farming and move into non-agricultural rural activities.

If the great majority of farmers remain outside dynamic chains, they will be condemned to poverty. The value of participating in dynamic, efficient value chains is self evident. It mostly entails access to market information, transfer of knowledge and technology, access to financing, reduction of risks and many opportunities to benefit from collective action. For example, a group of farmers may get together to minimize costs by making high-volume joint purchases of inputs at a lower cost.

### **C. Promising formal practices**

Anita Campion showed a helpful slide that clarified financing within the chain and financing from outside the chain. I will not talk about financing within the chain, as I believe it is already happening quite spontaneously. I think we need to take more of an interest in spreading the practice. This means three things: finding ways to encompass more people, especially small farmers; finding ways to make chains more efficient; and finding ways to make them stronger. So we have three objectives: expanding participation or the size of chains, expanding coverage, and strengthening chains. To accomplish these objectives, we need financing from outside the chain, which means financing from banks and non-banks. I believe that, through the formal practices we have seen illustrated here, financing can be extended to the leader of the chain, a large supplier who has collateral and who can tend offer loans to others or sell inputs on credit to other actors in the chain.

In the second place, we can finance organized groups of farmers or individual producers if they have assured markets. For example, farmers can present their sales contracts, and financial entities can accept them in place of collateral. If the chain includes an agricultural processor, the financial intermediary can talk to the manager, who confirms that farmers are working with him, that they can be trusted and he stands behind them. These things can work, can improve access to financing and, at the same time, can improve access to technical assistance.

The third category is something we saw in two extremely interesting cases of clusters or integrated companies that have their own financial institutions: INDACO in Perú and the Lafise group in Nicaragua, that are nearly self-financing.

In the fourth place is the linkage model that finances semi-formal intermediaries who are close to farmers. These are institutions that have the advantage of local information and in-depth knowledge of agricultural production but link up with capital from larger, outside organizations. The examples come from México: BANORTE and UNIPRO. Finally, we have the type of structured financing practiced by Agromantaro and COFIDE in Perú.

### **D. Implications**

I will divide my conclusions and implications into four groups, according to whether the responsibility lies with governments, farmers, financial institutions or donors.

## 1. Implications for governments

Governments need to support the development of market information systems. They should invest in technology research and adaptation for the agri-food sector. They should reform regulatory frameworks to create openings for innovative financial products such as leasing, factoring, bond issues, certificates of deposit, futures exchanges, parametric insurance, payment systems that recognize electronic currency, and credit reporting agencies. I was very impressed with developments in this field in Brazil, and I think we should try to copy what they are doing.

We also need to develop more streamlined legal systems to help with improved contract enforcement. Finally, governments should finance and support value chain coordinators as well as extension and technical assistance services. Governments can do this directly through the ministries of agriculture or can channel it by contracting a non-governmental organization (NGO) or consulting firm; in any case, someone has to do it.

## 2. Implications for farmers

Farmers need to adopt a more businesslike mentality. They have to seek out information and technology and boost productivity and quality. They need to manage risks, gain access to financing and improve management of their agribusiness. They need to keep records, plan, evaluate and analyze. They need to take action in an opportune manner. I cannot help but recall the presentation by Andrew Medicott of Fintrac, a project we should be cloning and passing along to all the other countries.

## 3. Implications for financial institutions

Financial institutions need to change their perceptions of the rural sector. Rural financing holds many opportunities. I think this was very clear in the presentations by BANORTE, Rabobank and Banco do Brasil, who told us that money can be made in this area, but you need to know how to get moving and how to measure risk. Financial organizations need to have a better knowledge of value chains. They need to design new, more appropriate products, and they must learn to work in partnerships and groups.

## 4. Implications for donors

Now I will discuss the things we donors need to do, along with technical agencies and research institutions. This includes FAO, IDB, IFPRI, USAID, CABI and the World Bank. I think we need to improve our analysis. We should start by studying examples of different ways to include small farmers and to improve the interaction between banks and leading agribusinesses. We can develop and

document promising models, improve dissemination and develop guidelines for standards and market codes. As it happens, supermarkets and other large companies are the ones who have started to set standards, instead of governments. International cooperation needs to work together with governments to improve policies and incentives for the agricultural sector.

Isabel Cruz has set before us an important challenge of improving access to term finance. I believe that donor organizations have a significant role in financing facilities or lines of credit to improve the granting of long-term credit. We also have much work to do, in conjunction with national governments, finding ways to mobilize more domestic resources or savings in the countries.

## Appendix 1

### Participants

---

#### A

**Ludwyng Mauricio Acuña**

Fondo Nicaragüense para el Desarrollo  
Comunitario-Nicaragua  
sharonmargarita@yahoo.com

**Francisco Acuña Alfaro**

Banco de Costa Rica-Costa Rica  
acuna@bancobcr.com

**Navil Agramont Akiyama**

Save the Children-Bolivia  
nagramont@savechildren.org.bo

**Marco Aldana**

Catholic Relief Services-United States  
aldana@crs.org

**Ileana Alfaro Álvarez**

Universidad de Costa Rica-Costa Rica  
ileanaa@cariari.ucr.ac.cr

**Jaime Almonte**

Embajada de México-Costa Rica  
jalmonte@ser.gob.mx

**Gabriela Álvarez**

Ministerio de Agricultura y Ganadería-Costa Rica  
magabriela\_alvarez@yahoo.com

**Jairo Andara**

Fondo Nicaragüense para el Desarrollo  
Comunitario-Nicaragua  
marioaba74@yahoo.com

**Carlos Humberto Aquino**

Mercy Corps-Guatemala  
caquino@gt.mercycorps.org

**Guillermo Antonio Argueta**

Patronato para el Desarrollo de las Comunidades  
de Morazán y San Miguel-El Salvador  
chiogava2005@hotmail.com

#### B

**Harold Baldizón Vega**

Consejo de Desarrollo Departamental de León-  
Nicaragua  
hbaldizonv@yahoo.com

**José René Banegas Vides**

Asociación Pilarh-Honduras  
rbanegas@pilarh.com

**Paola Bellotti**

Forestry Department FAO-Italy  
paola.bellotti@fao.org

**Job Blijdensteins**

Faceta Central-Guatemala  
faceta@terra.com.gt

**Eduardo Bresnyan**

RUTA-World Bank-Costa Rica  
bresnyan@worldbank.org

**Enrique Brooks**

Ministerio de Desarrollo Agropecuario-Panamá  
ebrooks@mida.gob.pa

**Carlos Cáceres Martínez**

CEPRODEL-Nicaragua  
ccaceres@ceprodel.org.ni

**Gonzalo Cambefort**

Instituto de Mercadeo Agropecuario-Panamá  
mt\_alcazar@ima.gob.pa

**Wilson Carrasco López**

TRIAS-Ecuador  
wilsoncar17@hotmail.com

**Rafael Celis Umaña**

ProDesarrollo Internacional-Costa Rica  
rcelis@amnet.co.cr

**José Cerdas Chavarría**

Programa Ecopymes ASI REA-Costa Rica  
jacerdas@hotmail.com

**Alfredo Chaves**

Ganadera La Tabla-Costa Rica  
alfredchaves@costarricense.cr

**Ricardo Cortés Carvajal**

ADRA-Bolivia  
rcortes@adra.org.bo

**Orlando Cortés Maravilla**

CEPRODEL-Nicaragua  
ocortes@ceprodel.org.ni

**Octavio Cortés S.**

Mennonite Economic Development Associates-  
Nicaragua  
ocortes@meda.org

**Isabel Cruz Hernández**

FOROLAC-México  
isacruz@prodigy.net.mx

**Mercedes Cuadra**

SERFIRURAL-Nicaragua  
serfirural@ruta.org

**D****Rafael Delgado**

Netherlands Cooperation Service SNV-Honduras  
rdelgado@snvworld.org

**Joao Diniz**

World Vision International-Costa Rica  
oao\_diniz@wvi.org

**Leana Divine**

Citizens Development Corps-United States  
ldivine@cdc.org

**Thomas Divney**

Rainforest Alliance-Costa Rica  
tdivney@ra.org

**E****Amy English**

Mercy Corps-Guatemala  
aenglish@mercycorpsfield.org

**Carlos Escala**

Planificación MIDA-Panamá  
cescala@mida.gob.pa

**F****Ana Fallas Quirós**

Banco de Costa Rica-Costa Rica  
afallas@bancobcr.com

**María Angélica Fauné**

UNIFEM-United Nations-Nicaragua  
afaune@cable.net.com.ni

**Fernando Fernández**

Proyecto AFIRMA-México  
fernando\_fernandez@dai.com

**Ignacio Fiestas**

RUTA-Costa Rica  
ifiestas@ruta.org

**Robert Fries**

ACDI/VOCA-United States  
bfries@acdivoca.org

**Carlos Fuentes**

MAG-FRUTALES-IICA-El Salvador  
carlos.fuentes@iica.org.sv



## G

**Mario José Gaitán**

Agros International-Nicaragua  
mariog@agros.org

**Armando José García Campos**

ACODEP-Nicaragua  
acodep@acodep.org.ni

**Héctor García Espinoza**

Banco de Costa Rica-Costa Rica  
hgarcia@bancobcr.com

**Ricardo García Tafur**

FAO-Perú  
ricardogarciatafur@yahoo.com

**Alberto Garvey Rojas**

Central Azucarera Tempisque-Costa Rica  
algarvey@catsa.net

**Oscar Gasca Brito**

SAGARPA-México  
ogascab.sfa@sagarpa.gob.mx

**Ana Isabel Gómez**

SEPSA-Costa Rica  
anagodemigue@costarricense.cr

**Alejandra Guevara Corrales**

BAC San José-Costa Rica  
pfernandezf@credomatic.com

**Abinadad Gurdíán**

Fondo Nicaragüense para el Desarrollo  
Comunitario-Nicaragua  
sharonmargarita@yahoo.com

**Iván Gutiérrez**

Redcamif-Nicaragua  
redcamif@cablenet.com.ni

**Santos Gutiérrez**

PADECOMSM-El Salvador  
fundacioncampo@navegante.com.sv

## H

**Carlos Hernández**

Fondo Nicaragüense para el Desarrollo  
Comunitario-Nicaragua  
sharonmargarita@yahoo.com

**Gioconda Hernández Montiel**

ACODEP-Nicaragua  
arrhh@acodep.org.ni

**Danilo Herrera**

IICA-Costa Rica  
danilo.herrera@iica.int

**Sarah Hirsch**

GTZ-Promype Project-Honduras  
sh@promype.hn

**Hellen Hoffmann Madrigal**

Banco Cuscatlán-Costa Rica  
hhoffmann@cuscatlan.cr

**John S. Horton**

Inter-American Development Bank-United States  
johnho@iadb.org

## I

**Javier Ignacio Ibarra**

Instituto Nacional de Tierras-Venezuela  
ignacio2020@hotmail.com

## J

**Hans Jansen**

RUTA-Costa Rica  
hjansen@ruta.org

**Luis Roberto Jiménez Padilla**

FINCA-Costa Rica  
ljimenez@fic.or.cr

## L

**Jean Paul Lacoste**

The Ford Foundation-Chile  
j.lacoste@fordfound.org

**Denis Lapoutre**

TRIAS-Ecuador  
Denise.Lapoutre@triasngo.be

**Walberto Lazo**

Fundación Campo-El Salvador  
elsyjeff@gmail.com

**Yorleny León Marchena**

Programa Ecopymes ASI REA-Costa Rica  
yorlenyleon@asirea.org

**Patricia Lobo Durán**

Redcom-Costa Rica  
direccionejecutiva@redcom.or.cr

**Norlan López**

Asociación Pueblos en Acción Comunitaria-  
Nicaragua  
harold@apac.org.ni

**Franklin Lozada**

Swisscontact-Ecuador  
fl@swisscontact.com.ec

**Raúl Lozán Cangalaya**

Financiera de Desarrollo-Perú  
rlozan@cofide.com.pe

**Manuel Lugo**

TechnoServe-Honduras  
manuel.lugo@tnshn.org

**M****Federico Madriz Víquez**

Banco Crédito Agrícola de Cartago-Costa Rica  
federico.madriz@bancreditocr.com

**José Leonel Martínez**

Asociación Pueblos en Acción Comunitaria-  
Nicaragua  
harold@apac.org.ni

**Minor May M.**

Banco Popular-Costa Rica  
rmiranda@bp.fi.cr

**Héctor Medina**

Instituto de Cooperación para la Agricultura-Costa  
Rica  
hector.medina@iica.int

**Sharlyn Meléndez**

BAC San José-Costa Rica  
smelendez@bacsan jose.com

**Luis Mesalles**

Granja Avícola Monserrat-Costa Rica  
mesallesbaker@ice.co.cr

**Shirley Mesén**

FOMIC-Costa Rica  
fomicsc@racsa.co.cr

**Antonio Mira**

CARE-El Salvador  
amira@care.org.sv

**Norman Montenegro**

TechnoServe-Honduras  
norman.montenegro@tnshn.org

**David Myhre**

Ford Foundation-México  
d.myhre@fordfound.org

**N****Ubaldo Núñez**

Ministerio de Desarrollo Agropecuario-Panamá  
ubaldo\_56@yahoo.com

**O****Juan Carlos Ordóñez Tercero**

Secretaría de Agricultura y Ganadería-Honduras  
jcordonez@sag.gob.hn

**Lourdes Ortiz**

Fundación Sierra Madre-Guatemala  
enchufados4@yahoo.com

**Douglas M. Ostrov**

The QED Group-United States  
dostrov@qedgroupplc.com

**P****María Martha Padilla**

FINCA-Costa Rica  
mmpadilla@fic.or.cr

**Rafael Paredes**

TechnoServe-El Salvador  
rparedes@integra.com.sv

**María Pascual**

AGEXPRONT-Nicaragua  
Maria.Pascual@agexpront.org.ni

**Rubén Pasos**

PENCE/ DFID-Nicaragua  
relave@ice.co.cr

**Diorset Pecou**

Asamblea Legislativa-Costa Rica  
dpecou@asamblea.go.cr

**Harold José Pérez Santana**

Asociación Pueblos en Acción Comunitaria-  
Nicaragua  
harold@apac.org.ni

**Lilliana Pozzo**

Enterprising Solutions-United States  
lpozzo@esglobal.com

**R****Octavio Ramírez**

FAO-Costa Rica  
oramirez@faocr.org

**Kerlin Ramírez Sánchez**

Banco Cuscatlán-Costa Rica  
jfallas@cuscatlan.cr.com

**Stephen Rannekleiv**

Mennonite Economic Development Associates-  
United States  
stever@meda.org

**Orlando Reyes**

Canadian Centre for International Studies and  
Cooperation-Guatemala  
orlandor@ceci.ca

**Iván Rodríguez**

Swisscontact-Honduras  
swisscontact\_ivan@cablecolor.hn

**Orlando Rodríguez**

Banco Hipotecario de El Salvador-El Salvador  
orlando.rodriguez@hipotecario.com.sv

**Perla Rosales**

PROMIFIN-COSUDE-Nicaragua  
prosales@promifin.org.ni

**Juan Emilio Ruiz Miranda**

Asociación Pueblos en Acción Comunitaria-  
Nicaragua  
juan@apac.org.ni

**S****Eddy Salgado**

TechnoServe-Nicaragua  
esalgado@tns.org.ni

**Álvaro Samayoa Pira**

Banco G & T Continental-Guatemala  
alvsamayoa@gytcontinental.com.gt

**Luisa Santur Alberca**

NGO Fomento de la Vida-Perú  
luisa@fovida.org.pe

**Geralyn Sheehan**

Opportunity International-Nicaragua  
gsheehan@opportunity.net

**José Luis Sorto**

Banco Hipotecario de El Salvador-El Salvador  
jose.sorto@hipotecario.com.sv

**T****Rosa Tablada**

Fondo de Crédito Rural-Nicaragua  
rtablada1956@yahoo.com

**Edgar Talavera**

Asociación Coordinadora Indígena y Campesina  
de Agroforestería Comunitaria Centroamericana-  
Costa Rica  
produccion@acicafofoc.net

**Leda Isabel Talavera**

Asociación Pueblos en Acción Comunitaria-  
Nicaragua  
harold@apac.org.ni

**V****Huberth Valdivia Murillo**

Agencia de Desarrollo Económico y Social-  
Nicaragua  
huberth2000@yahoo.com

**Miriam Valverde**

RUTA-Costa Rica  
mvalverde@ruta.org

**Corstiaan Van Aalsburg**

Asociación Pueblos en Acción Comunitaria-  
Nicaragua

corstiaan@apac.org.ni

**Pedro Pablo Vargas Sarria**

FUNICA-Nicaragua

ofichi@cablenet.com.ni

**Juan Vega**

PROMIFIN-COSUDE-Nicaragua

jvega@promifin.org.ni

**Roberto Antonio Vega Lara**

TechnoServe-El Salvador

rvega@telesal.net

**Marta Villegas**

SEPSA-Costa Rica

mvillegas@mag.go.cr

**W**

**Christine Woda**

GFA/GTZ-Honduras

cwoda@web.de

## Appendix 2

### Speakers and moderators

---

#### A

**Rommel Acevedo**

Secretary General  
Latin American Association of Development  
Finance Institutions (ALIDE)  
sg@alide.org.pe

**Dercí Alcántara**

Director  
Agribusiness Department Banco do Brasil  
emersonw@bb.com.br

**Juan Arrieta**

Independent Consultant  
arrieta02@terra.com.pe

#### B

**Alan Bojanic**

Representative  
FAO Mission in Costa Rica  
FAO-CR@fao.org

#### C

**Anita Campion**

Finance Specialist  
Chemonics International  
acampion@chemonics.com

**Kevin Casas**

Vice President  
Republic of Costa Rica  
kfernandez@mideplan.go.cr

**Jorge Cavallini**

Manager of Agricultural Development  
Wal-Mart Centroamérica  
jorge.cavallini@latam.wal-mart.com

**Geoffrey Chalmers**

Development Finance Advisor  
USAID Mission in México  
gchalmers@usaid.gov

**Rubén Chávez**

Chief Executive Officer  
UNIPRO  
ruben.chavez@unipro.org.mx

**Luis Corrales**

Corporate Director  
BN Desarrollo  
lcorrales@bncr.fi.cr

#### D

**Carlos da Silva**

Agribusiness Economist  
FAO Agricultural Management, Marketing and  
Finance Service  
carlos.dasilva@fao.org

#### F

**Julio Flores**

Chief Executive Officer  
Fondo de Desarrollo Local  
floresc@ns.uca.edu.ni

## G

**Eva Gálvez**

Economist  
 FAO Agricultural Management, Marketing and  
 Finance Service  
 Eva.GalvezNogales@fao.org

**Miguel Gómez**

Director  
 Regional Unit for Technical Assistance (RUTA)  
 mrgomez@ruta.org

**Claudio González-Vega**

Director  
 The Ohio State University Rural Finance Program  
 gonzalez.4@osu.edu

## H

**Raúl Hopkins**

Regional Economist  
 IFAD Latin America and the Caribbean Division  
 r.hopkins@ifad.org

## J

**Ruth Junkin**

Rural Finance Specialist  
 CATIE Center for the Competitiveness of  
 Ecoenterprises  
 rjunkin@catie.ac.cr

## L

**Eduardo Lizano**

President  
 Academia de Centroamérica  
 elizano@academiaca.or.cr

## M

**Enrique Martínez**

Executive Director,  
 Agricultural Credit Banorte  
 enrique.martinez@banorte.com

**Ronald Martínez**

Regional Manager in Costa Rica  
 Central American Bank for Economic Integration  
 rmartine@bcie.org

**Andrew Medlicott**

Director  
 Rural Economic Diversification Program (RED)  
 andy@fintrac.com

**Carlos Melosevich**

Chief Executive Officer  
 INDACO  
 moncarlos@yahoo.com

**Calvin Miller**

Senior Officer  
 FAO Agricultural Management, Marketing and  
 Finance Service  
 calvin.miller@fao.org

## R

**Jorge Requena**

Representative  
 Inter-American Development Bank Mission in  
 Costa Rica  
 jorgere@iadb.org

**Raúl Romero**

President  
 Chestnut Hill Farms  
 raulr@chfusa.com

## S

**Leonela Santana**

Senior Economist  
 UNCTAD Commodities Division  
 Leonela.Santana-Boado@unctad.org

**Ken Shwedel**

Director of Agribusiness Analysis  
 Rabobank International Regional  
 ken.shwedel@rabobank.com

**Célimo Soto**

Director of Finance  
 Cooperativa de Productores de Leche Dos Pinos  
 csoto@dospinos.com

## T

**Pauline Tiffen**

Consultant  
World Bank and International Finance Corporation  
ptiffen@worldbank.org

**Peter Torrebiarte**

Chief Executive Officer  
Starbucks Coffee Agronomy Company  
ptorrebi@starbucks.com

## V

**Alfredo Volio**

Minister of Production  
Republic of Costa Rica  
avolio@macadamiacr.com

## W

**Mark D. Wenner**

Senior Finance Specialist  
Rural Development Unit, Inter-American  
Development Bank in Washington  
markw@iadb.org

## Z

**Enrique Zamora**

Chief Executive Officer  
Agropecuaria LAFISE  
enriquez@lafise.com





## Appendix 3

### Program

---

#### **Agricultural Value Chain Finance**

Costa Rica, May 16-18, 2006

Hotel Real InterContinental

#### **May 15– Jacarandas III Room**

**Registration** (6:00 a.m. -9:00 p.m.)

- Registration of participants
- Receipt of materials

#### **May 16 – Real I Room**

**Inauguration** (8:00 – 10:15)

Moderator Miguel Gómez, RUTA

Welcome Kevin Casas, Vice President of the Republic of Costa Rica  
Alan Bojanic, FAO Representative in Costa Rica

Keynote speaker Ken Shwedel, Rabobank

Discussion

Coffee

**Lessons learned in agricultural value chain financing** (10:15 -12:45)

Moderator Calvin Miller, FAO

Speakers

- Eva Gálvez, FAO
- Geoffrey Chalmers, USAID
- Mark D. Wenner, IDB
- Pauline Tiffen, World Bank

Discussion

Lunch (12:45 – 2:00)

**Models of agricultural value chain financing (2:00-6:00)**

- Moderator Carlos da Silva, FAO
- Speakers
- Claudio González-Vega, The Ohio State University
  - Jorge Cavallini, Wal-Mart Centroamérica
  - Carlos Melosevich, INDACO (Perú)
- Coffee
- Célimo Soto, Dos Pinos (Costa Rica)
  - Juan Arrieta (Perú)
  - Raúl Romero, Bounty Fresh (USA)
  - Rubén Chávez, UNIPRO (México)
- Discussion

**May 17 – Real I Room****Financial entities and agricultural value chains: Innovative arrangements (8:00 – 11:00)**

- Moderator: Rommel Acevedo Fernández de Paredes, ALIDE
- Dercí Alcantara, Banco do Brasil
  - Enrique Martínez, Banorte (México)
  - Enrique Zamora, LAFISE (Central America)
  - Luis Corrales, Banco Nacional de Costa Rica
  - Leonela Santana, UNCTAD

Discussion

Coffee

**Technical assistance, risk mitigation and access to financial services (11:00 – 12:30)**

- Moderator Ruth Junkin, Center for the Competitiveness of Ecoenterprises, CATIE
- Julio Flores, Fondo de Desarrollo Local (Nicaragua)
  - Andrew Medicott, ADC (Honduras)
  - Peter Torrebiarte, Starbucks
  - Anita Champion, Chemonics International

Discussion

Lunch (12:30 – 2:00)

- Moderator Jorge Requena, IDB/Costa Rica
- Speakers
- Calvin Miller, FAO
  - Geoffrey Chalmers, USAID
  - Mark D. Wenner, IDB/Juan Fonseca, CII
  - Ronald Martínez, CABEL
  - Raúl Hopkins, IFAD
  - Pauline Tiffen, World Bank/ IFC

Discussion

Coffee

---

**Closing (4:00 – 5:00)**

Moderator	Eduardo Lizano, Academia de Centroamérica
Conclusions	Rapporteur 1: Isabel Cruz, Forolac Rapporteur 2: Robert Fries, ACDI/Voca Mark D. Wenner, IDB
Closing	Alfredo Volio, Minister of Production of the Republic of Costa Rica Calvin Miller, FAO

**May 18****Visits to companies (8:30 to 3:00)**

Option 1	Dairy processor/exporter: Cooperativa de Productores de Leche Dos Pinos El Coyol, Alajuela
Option 2	Coffee processor/exporter: Coopedota Santa María de Dota









The Academia de Centroamérica is a private, non-profit research center located in Costa Rica. It was founded in 1969, and its primary focus is to promote social science research with an emphasis on economic policy. Its mission is to conduct research on economic and social development as a means to facilitate the formulation of economic and social policies for strengthening the market economy. It also supports its members by promoting their projects and programs along these same lines.

[www.academiaca.or.cr](http://www.academiaca.or.cr)



The Program to Support Rural Financial Services (SERFIRURAL) is a regional program that offers technical assistance in rural finance. Created with a donation from the International Fund for Agricultural Development (IFAD), SERFIRURAL is active in the subregion of Central America, Mexico and Panama. Its objective is to provide the rural poor with broader access to sustainable financial services, thus helping to improve the quality and coverage of services lent by financial institutions.

[www.serfirural.org](http://www.serfirural.org)



In these days of dizzying change, when a new business rival could appear on the scene at any moment or in any corner of the world, successful farmers must constantly acquire new skills and knowledge. The need to learn, to obtain information and to compete drives every actor in the chain to build closer linkages with other actors and generates new demands for financial services.

Independent farmers, faced with dramatic price risks, will eventually become broken links in fragmented chains, unable to survive competition or remaining forever in poverty. With the onset of structural transformation and the transition to modernized globalization, today's markets require integrated systems of differentiated production in which farmers, processors and marketers work interdependently. These producers can become and remain competitive if they have modern, well-organized chains and dynamic, flexible financial services.

This book examines the transformation of agriculture, the consolidation of agri-food chains, and new trends in financial intermediation.

***Sponsored by:***

Food and Agriculture Organization of the United Nations  
Regional Unit for Technical Assistance  
Academia de Centroamérica  
Programa de Apoyo a los Servicios Financieros Rurales

ISBN 978-92-5-105942-5



9 789251 059425

TC/D/10016E/1/02.08/500