

Producer Organisations:

Going into Business with Formal Markets

Producer Organisations: Going into Business with Formal Markets

SNV

SNV is a not-for-profit international development organisation. Founded in the Netherlands 50 years ago, we have built a long-term, local presence in 38 of the poorest countries in Asia, Africa and Latin America. Our global team of local and international advisors works with local partners to equip communities, businesses and organisations with the tools, knowledge and connections they need to increase their incomes and gain access to basic services – empowering them to break the cycle of poverty and guide their own development.

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Foreword

The role of the producer organisations (PO) is critical in the development of inclusive and sustainable supply chains. These organisations can be effective and vital players in the supply chain due to their ability to connect smallholder farmers to markets, including the school feeding market. The Procurement Governance for Home Grown School Feeding (PG-HGSF) project recognised from the outset that smallholder farmer producer organisations, if they were to be successful as suppliers to national school feeding programmes, needed to strengthen their capacities. The situation of producer organisations in the areas that the project focused on in three countries (Ghana, Kenya, and Mali) was such that from a number of perspectives, whether organisational, managerial, infrastructure, membership, or services, they often lacked the competencies to operate as commercial enterprises capable of engaging in a competitive market.

In the context of national school feeding programmes—where the supply chain concept continues to be in the development phase—it is possible to understand the different practices required for producer organisations to be able to fill the gap between the smallholder farmer and the demands of the market. The project teams in each country implemented targeted interventions to improve the capacities of the POs they worked with, aiming to make them “market ready”. The experience has yielded some valuable lessons shared in this document, which took the approach of learning from the cases supported by the PG-HGSF project, and complemented these lessons with the experiences of other projects implemented by SNV Netherlands Development Organisation in different countries, as well as using the input from experts active in different supply chains.

The result is more than simply a reflection of the project’s valuable experience. Drawing on recognised expertise in the field, the document also brings us additional, proven intervention ideas that can, when applied in a comprehensive way, serve to make POs strong and competitive players in these markets. It is hoped that this learning document will provide guidance to policymakers and development practitioners to further enrich their understanding and guide them in identifying and introducing appropriate interventions that can balance objectives and be successful in developing more effective, inclusive and sustainable supply chains that have competent producer organisations at the core.

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 **IMAGE CAPTION** Pupils of Chumvi primary school enjoying their mid-day meal, in June 2015.

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Abbreviations

HGSF	Home Grown School Feeding
HRM	Human Resource Management
PG-HGSF	Procurement Governance for Home Grown School Feeding
PO	Producer Organisation
R&D	Research and Development
SD	Structured Demand
SHF	Smallholder Farmers
SNV	SNV Netherlands Development Organisation
WRS	Warehouse Receipt System

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Summary



The Procurement Governance of Home Grown School Feeding (PG-HGSF) project of SNV, implemented in Ghana, Kenya and Mali, aims to link smallholder farmers with government-led school feeding programmes based on the premise that such a structured demand (SD) market, coming from reliable and predictable needs for food products, is a compelling opportunity for smallholder farmers (SHF). However, to supply to the SD market, SHF face critical constraints, such as low volume, variety of products and quality, and lack of information and experience on meeting the requirements to establish formal relationships. In this context, the producer or farmer-based organisation (PO) as an intermediary between the farmer and the buyer could be the key supply chain partner for facilitating opportunities for the SHF to leverage SD market possibilities.

“...it became quickly apparent that in general producer organisations are not sufficiently organised”

As a strategy to reach larger numbers of farmers, it became quickly apparent that in general POs are not sufficiently organised, formalised and business-oriented, and that they lack infrastructural, financial and management capacity for effective commercial operations. The project identified already existing POs and supported them in addressing weaknesses that prevented their successful involvement in procurement processes of the school feeding programmes. The diversity of situations led to a variety of support activities, but also to the conclusion that a strategic vision on PO strengthening is needed to transform them into competitive partners in formal markets.

This document provides development partners with an approach for ascertaining the competitiveness of POs as well as responsive interventions that, when used together, form a strategic vision for PO strengthening. The document starts with a conceptual discussion about what POs are and how they can become more competitive. The value chain model for manufacturing organisations of Michael Porter, one of the most creative thinkers about competitiveness and development, is used as the basis to develop a competitiveness analytical framework for producer organisations. This framework distinguishes six key performance indicators, taking into account a setting of smallholder farmers in developing countries that aim to access school feeding and other formal and SD markets:

1. Production potential of the members of the producer organisation

The potential of the members in supplying the required volume, variety and quality to meet the needs of the markets the PO claims to access.

2. Coverage of the core activities

Type and nature of support for buyers and members and the completeness of the different operational PO activities and services.

3. Level of market integration of the producer organisation

This indicator reflects how well the POs are able to link up with the buyers, and is measured by the type and nature of the relationship with buyers, such as transactional vs. contractual.

4. Financial capacity of the producer organisation

The financing and self-sustainability scope of the producer organisation, which is measured through the PO's ability to generate sufficient cash flow and investment finance for their core and non-core activities.

5. Efficiency and planning

The ability of the PO to effectively plan, execute, monitor and control different activities.

6. Human resource support

The human resource capacity and the development elements of members, board, management and staff as its key focus.

The indicators were used to define a number of critical performance factors to analyse a total of fourteen cases, ten related with project activities and four not from the project, so that the study can benefit from an external dimension. In the document, some main results are discussed about how the POs perform on the different indicators, showing a significant diversity. It was difficult to relate directly the performance with business results of the organisations, because of the data collection methodology with weak standardisation, and the general lack of complete and comparable data of the POs. The information from the POs, however, gives a very rich picture of the way the POs function in relation to the six indicators, how they develop responses to play their role in the supply chain to formal markets, and of the support the project has offered them so far.



Caption text.

It is clear that there is no one-size-fits-all PO strengthening process due to contextual differences among the POs, but the analysis of the broad range of cases and based on the competitiveness framework allowed the authors to develop five key intervention areas to improve the competitiveness of the PO:

1. Manage supply risk

The production of the member-suppliers should be improved in quantity and quality. Buying from non-member farmers in addition to delivery by members will give flexibility to aggregate the demand volumes. Taking ownership of the products by the PO, quality control and the availability of storage infrastructure will facilitate the role as supplier to market partners.

2. Strengthen membership

The benefits of membership, such as receiving support and information from their organisation and participation in decision-making, should be clear for the farmers. At the same time, transparent rules and delivery agreements must be in place to motivate their commitment.

3. Manage the PO as a company

The PO, as agent between farmer and market, should be professionally organised and operated for a competitive performance on the primary activities balancing outsourcing and self-operating activities. This means adequate planning and administration operations have to be established and board, staff, workers and members need to be prepared.

4. Develop market and buyer relations

Strong and longer-term relationships with different buyers are needed to become a reliable market partner. Market intelligence is important for making commercial decisions as PO, as well as to transfer market signals to the members to influence their decisions on production and to define the conditions of supplying to the PO.

5. Optimise the financial capacity of the PO

Financial capacity should be based on a mixture of cash flow and investment sources including margins, loans and late payment of members, backed up by a sound and transparent administration.

Applying the interventions must be done in a creative way and adjusted to the stage of development and the conditions in which the PO finds itself. The competitiveness framework developed in this document can be used to ascertain the starting situation and to define the support needed to strengthen the PO as effective supply chain actor between smallholder farmers and structured demand, such as school feeding, and other formal markets.



IMAGE CAPTION
Maize storage at the Mt. Kenya North Farmers Produce and Marketing Organisation.

Introduction

1

SNV's Procurement Governance for Home Grown School Feeding (PG-HGSF) project is implemented in Ghana, Kenya and Mali and aims to link smallholder farmers with government-led school feeding programmes based on the premise that such a Structured Demand (SD) market, coming from reliable and predictable needs for food products, is a compelling opportunity for smallholder farmers (SHF). The project addresses the challenge from three angles:

- The procurement by the public entities of food products (in Kenya and Mali) and caterer services (Ghana).
- The supply chain from the smallholder farmer to the schools.
- Social accountability as a mechanism to involve a broad diversity of actors in the monitoring of school feeding programmes' implementation, with special focus on the challenges of the access of local farmers to the school feeding market.

This document falls within the second angle and wants to contribute to the project's learning question of how the SHFs can best organise themselves to competitively participate as suppliers to school feeding and other SD markets.

To supply to the SD markets, SHF face several critical constraints, such as low volume, variety of products and quality, and lack of information and experience to achieve the required formal relationships. In this context, the producer or farmer-based organisation (PO) as an intermediary between the farmer and the buyer could be the key supply chain partner for facilitating opportunities for the SHF to leverage SD market possibilities.

The project identified existing POs and supported them in addressing weaknesses that prevented their successful involvement in procurement processes of the school feeding programmes. The diversity of situations led to a variety of support activities, but also to the conclusion that a strategic vision on PO strengthening is needed to transform them into competitive partners in formal markets. While POs have the potential to engage in a range of supply-chain activities, there are still limitations in closing the gap between the farmer and SD market opportunities. Specifically, SNV's experience suggests that POs need enhanced financial and management capacity, a more formal and business-oriented structure, and better infrastructure, to expand their functions for effective commercial operations (ToR SNV, 2014).

This document focuses on the POs and the requisite capabilities that will enable them to become effective supply chain partners to their member SHF by providing them

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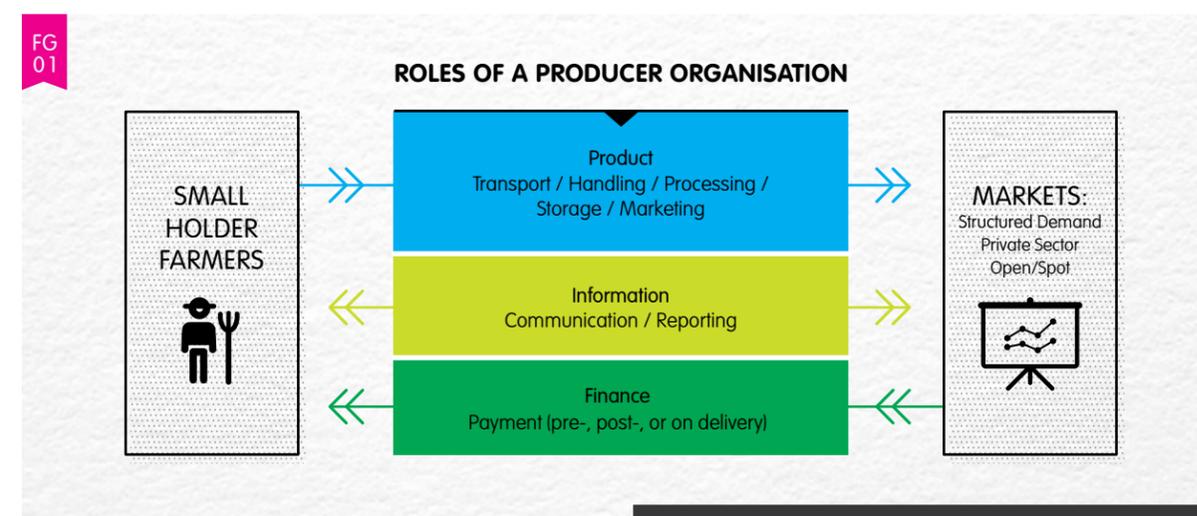


Figure 1. Representation of the main roles of a producer organisation (adjusted from Terms of Reference SNV, 2014)

with market access and services to support their production capabilities. POs take shape in different ways; for example, as community level cooperatives, multi-purpose associations, self-help groups, community-based organisations, multi-layer organisations, shareholder companies, as well as variations of these organisational types. They implement different activities depending on their objectives, investment opportunities, members' situation and external conditions. Typical activities of a PO can be organising farmers to receive external support, dissemination of market information to members, bulk purchase and distribution of inputs, aggregation and joint sale of farmer products, handling and storage, processing, transportation, mechanisation services for farmers, and support for farmers to access credits and loans. For all those activities, different mechanisms can be developed based on the resources they have and their specific situations. The availability of external support, the financial capacity of the members and the PO to have professional staff, infrastructure and equipment, the quality requirements from the market, and many other factors will define the optimal way the activities are designed and implemented. Typically, the establishment and functioning of a PO should respond to the objectives of both the members and the markets. There may not be one ideal PO model, but rather a broad range of possible operating mechanisms and organisational structures.

The above figure reflects the main roles the POs can play to link the smallholder farmers with markets for their products, distinguishing between the role in the product, information and the finance flow (see Figure 1). Part of the activities (in the central box) can also be outsourced to service providers, and/or service providers can strengthen the PO to implement the activities.

This document starts in Chapter 2 and 3 with a conceptual approximation to what POs are and how they can become more competitive. Michael Porter's value chain model for manufacturing organisations is used as the basis to develop a competitiveness analytical framework for producer organisations. The framework is explained in Chapter 4 and distinguishes six key performance indicators, taking into account the context of smallholder farmers in developing countries that aim to access school feeding and other formal and SD markets. This framework is applied in Chapter 5 to the information from ten project PO-cases and four external PO cases, which produces a richness of details on how the POs perform in different areas and what the project has done to strengthen them in these areas. This analysis leads in Chapter 6 to the description of five suggested key intervention areas for effective strengthening of POs to competitively access formal markets. The document ends in Chapter 7 with some general conclusions and recommendations for the use of the document.

The Producer Organisation

2

2.1 Definition of the producer organisation

The literature proposes several definitions of the producer organisation. Based on Rondot (2001) the following definition is used in this study:

"The producer organisations (POs) are formal rural organisations whose members are smallholder farmers who organise themselves with the objective of improving farm income through improved production, marketing, and local processing activities."

POs engage in a range of activities to fulfill their objectives, and organise themselves in different ways: "legal entities, associations, cooperatives, self-help groups, multi-layer organisations (like local cooperatives and regional or national unions), shareholder-based companies and some mixes of these organisations" (Rondot, 2011). POs implement different activities depending on their objectives, investment opportunities, situations of the members and external conditions. Activities include organising farmers to receive external support, bulk purchase and distribution of inputs, aggregation and joint sale (or buying) of farmer products, handling and storage, processing, transportation, mechanisation services for farmers, and creating access to finance from banks and microfinance institutes.

2.2 The roles of producer organisations

The farmers have their own responsibilities to improve the operation and market positions. Options for improving margins at the farm level include: higher production, reduction of (transaction) costs, reducing post-harvest losses, and better marketable quality leading to a higher-price realisation. The farmers can decide to join forces to strengthen specific activities and develop a producer organisation. These specific activities include input purchasing, collection and post-harvest processing, and selling (marketing) products. The PO can also be seen as an extension of the farm activities. The farmer can focus primarily on production while other activities can be outsourced to the farmer-owned organisation. In essence, while the primary production is managed by the farmers, POs can engage in a range of other enhanced post-harvest operations, input supply, and other activities needed to ensure that the farmer is able to produce the market-desired products at the right quality, time and price. An additional advantage of joining forces in a PO is that it allows hiring professional and specialised human capital that may be outside the reach of an individual farmer.

To guarantee the participation of SHFs in agro-food supply chains, the transaction and coordination costs should be limited from the buyer's (market) perspective. To facilitate market entry for smallholder farmers, economies of scale and scope are essential (Ruben, 2006). Transport costs, post-harvest handling and qualification of the labor force are thus becoming key dimensions of the competitive advantage. SHF can achieve economies of scale by establishing a PO. Notwithstanding the general negative experiences with cooperatives in some countries, farmers demonstrate wide interest in joining efforts to improve market access (Bijman, 2011 and 2014).

Some advantages for SHFs to join forces in a PO are:

- Higher food-quality and safety standards can be better met if farmers make joint investments and are willing to exercise mutual control and ban free-rider behaviour;
- Compliance in terms of volume, price and quality to the agreement with the buyer and organising control at the PO level may provide important cost advantages to small producers who are able to reduce monitoring costs;
- Bargaining power vis-à-vis input suppliers, traders and retailers can be more effective; and
- The organisation is the basis for gradually improving the share of the farmers in value-addition.

That said, POs also face major challenges in accessing markets, pricing (Vorley, 2002) and the control of free riders. The unequal power balance in the chain is a result of the asymmetrical access to capital and market information. Therefore, the

business partners can easily dictate the form and structure of the relationship with the farmers. To balance the power between farmers and buyers, or input suppliers, the producer organisation model of cooperation has proven useful (Bijman, 2011; Ruben, 2006). However, the level of the POs' success in balancing the power dynamic is strongly related to the ability to control free riders through clear rules, contracts, social bonds with the farmers, competitiveness, offering better prices, and by sharing dividends with supplying member farmers.

Other typical characteristics of the SHFs that justify producer organisations (Tilburg, 2007) are: Scattered production by many smallholder producers that individually are each other's competitors; Supply irregularities due to variable weather and climate conditions;

- High variability in quality attributes. Making supply chains work for development implies that local producers should not only be cost-competitive, but also able to comply with quality requirements, guarantee constant and reliable supply, and strictly maintain safety and health regulations;
- Thin local markets due to limited supply with oligopolistic demand and need for economies of scale and scope;
- High transaction and handling costs related to long distances between producers and consumers and problems with infrastructure quality;
- Poor access to market information; and
- Limited access to financial services including insurance, credits and loans.



 IMAGE CAPTION Peter Kinyua, trader in Nyadarua County, Kenya.

The flip side of PO partnerships is that they can exhibit higher institutional complexity (Bitzer, 2012). Eventually, the risk of an increased complexity could be that coordination and transaction costs could become higher than the created value. While family-operated smallholder farms usually exhibit advantages for producing labor-intensive products (Key and Runsten 1999; Dries and Swinnen 2004), there are increasing capital demands for establishing PO processing and storage facilities, logistics systems for collection and transport to the market, professional management, and back-office facilities for registration and bookkeeping. To ensure a smallholder farmer benefits from an inclusive supply chain approach, a clear added value of the PO is essential (Visser, 2012).

2.3 The producer organisation in the broader chain dynamics

Buyer-driven supply chains—as opposed to producer-driven product chains—have more sophisticated forms of coordination and integration, and rules of participation. The main drivers are to control the supply volume, price and quality. Examples are the international operating buyers like retailers and the food industry. The school feeding programmes, and public procurement in general, also have a relatively complex set of procedures and procurement requirements (Brooks et al, 2014). For SHFs who want to meet these high buyer standards, there is a need for new forms of governance in the supply chain. Farmers need to comply with the new set of quality standards and are challenged to make formal contracts. In many cases, farmers need to deal with specialised intermediaries for contract enforcement and certification. To reduce inspection costs, these intermediaries prefer the PO to bulk the supply.

“To ensure a smallholder farmer benefits from an inclusive supply chain approach, a clear added value of the producer organisation is essential.”

Competitiveness Framework

3

3.1 Using the Porter value chain model

As POs are positioned as a bridge between the SHF and market opportunities, it is important to understand the activities that increase their competitiveness as organisation and business. As a critical link between the members and the market players, we found it appropriate to leverage the value chain model of Michael Porter, one of the most creative thinkers about competitiveness and development, which in a comprehensive way studies primary and secondary activities of the manufacturing organisations (Porter, 1985), which we adapted to POs (see Figure 2).

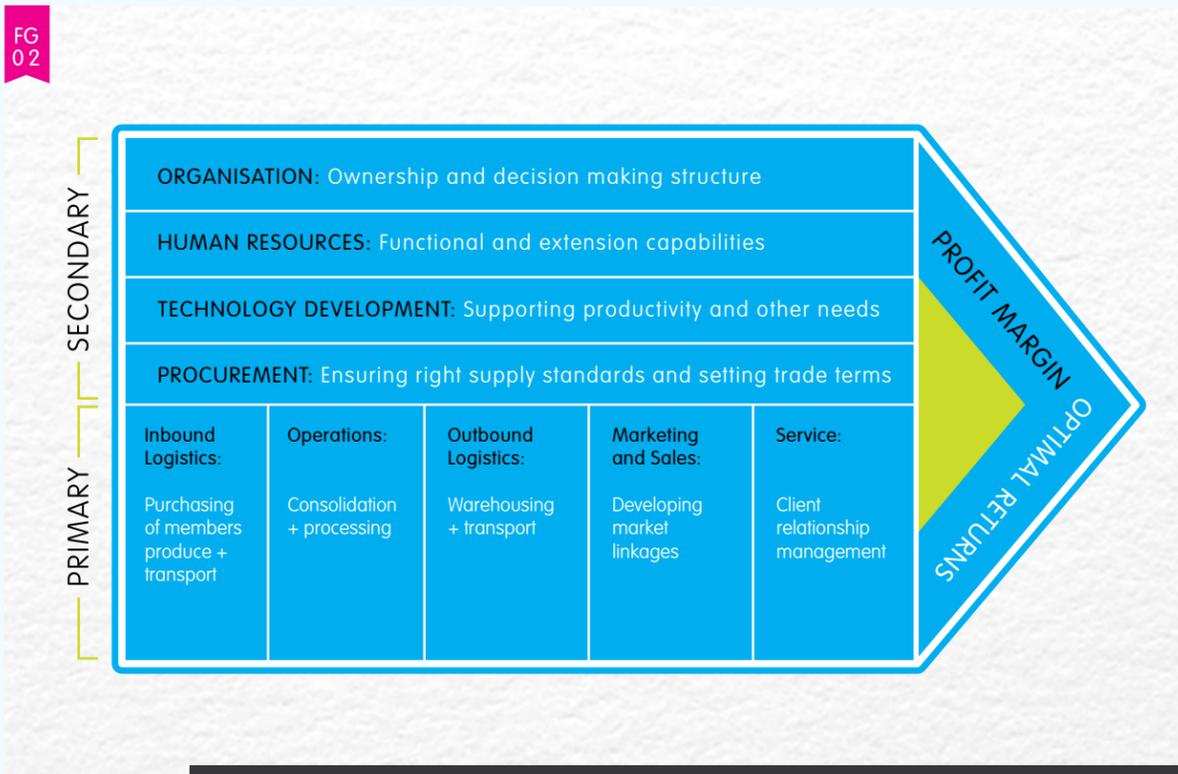


Figure 2. The different activities in a PO to create value in the chain (adapted Porter, 1985). Black text is the original; white text is the adaptation.

The key similarity between a manufacturing entity and the PO is that both have a critical role in creating added market value to products delivered from a supply base. This being the key similarity, there are several operational and functional differences between manufacturing and a PO. Some specific differences related to the PO as applied to Porter's value chain, which have led to the adjustments in figure 2, are below:

1. Difference in relationship structure: While the supply base in Porter's framework does not generally have ownership in the manufacturing firm, the suppliers in the PO chain are owners and shareholders. This difference in relationship structure could come with obligations that need to be managed, while at the same time, must meet the demands of the market partners.

2. While a manufacturing organisation (in the context of Porter) is not obliged to fulfill obligations from its current supplier base, the PO has a key mandate to create market linkage for the produce of every SHF member.

3. The manufacturing organisation has to create forward market value; the PO also has to create added value among its member/owners-suppliers and has a responsibility to support them in several critical elements such as procuring inputs, extension services, etc.

4. The value adding and support activities between a typical manufacturing organisation and a PO would be considerably different. While the manufacturing organisation most often deals with transformation of products, POs can sometimes only add value

merely by bulking and stocking the products and/or delivering to the members, which could lead to enhanced product value. Some POs might also be involved in secondary processing, which involves transforming the base products.

5. Difference in ownership of the product: Porter's manufacturing firms buy raw materials from suppliers and produce their own products. In the case of POs, some buy the product from the farmers, create value and sell the product like a normal firm. However, other POs are not the owners of the products and only sell the farmer (member)'s goods, thus creating value as a service provider to the farmer.

3.2 The core activities of the PO

Taking all the primary and secondary activities of the PO into consideration and keeping a close eye on the above differences, the model for the PO (see Figure 2) has been established. The typical primary and secondary activities of the PO are indicated below:

Primary activities

1. "Purchasing of members' produce and transport" are equivalent to the inbound logistics activity in the case of the manufacturing organisation. Quality control and pricing of the raw materials are also parts of the purchasing activity.

2. "Consolidation and processing" covers the typical value-adding operations of the PO. While consolidation takes care of bulking activity and storage of the produce to sell it at a favourable price later, processing is about enhancing the value of a

product by changing its form and/or structure (e.g., milling, drying etc.).

3. "Warehousing and transport" are the typical outbound logistics activities of the PO. Even in cases when a member is carrying out a direct sale, they can avail these capabilities of the PO as a service. In such instances, the ownership of the product and its marketing responsibility definitely remain with the member while the member is availing these capabilities of the PO for a fee.

4. "Developing market linkages" with formal and informal players is their key marketing and sales activity.

5. "Client relationship management" is the PO's activity to ensure that the client is satisfied with the product specifications as well as to ensure managing the relationship for future business.

Secondary activities

1. "Ensuring right supply standards and setting trade terms" is the "Procurement" secondary activity in Porter's model. It is about establishing and enforcing the terms of trade with the supply base to align the raw material to become relevant for the primary activities, especially inbound logistics activities. In the case of the PO, this activity would play a similar role in which the PO is agreeing with its members for the trade terms such as:

- What are the agreed volumes?
- What are the agreed price conditions?
- What are the agreed quality standards?
- What level of quantities can be channeled independently through POs?

The procurement is critical, as it is the basis for the PO's capacity to define contractual commitments with buyers and become reliable market partners. As the PO is often not free to procure from any supplier—although buying from non-members can be part of its strategy—the procurement planning must be done in accordance with the production planning of the members. Additionally, avoiding free riding is part of the procurement activity.

2. "Supporting productivity and other needs" targets the technology development to improve the primary process elements of the PO, and also the production, monitoring, control and harvesting processes, etc. at the level of the member farmers. This will be equivalent to the research and development (R&D) process indicated in the original Porter's model. Though POs need not be the ones innovating on each/all of the above developments, they act as intermediaries and help their members improve their technology use by offering extension and training, providing improved inputs, mechanisation and linkage to finance.

3. "Functional and extension capabilities" are related to the human resources within the POs that handle the primary activities of the PO. Staff, management, board members and outsourced labour must be capable and professional. A typical PO activity is the member service support to help farmers manage their primary production activity. The service needs may vary significantly, from very simple production monitoring and

control services to covering a full range of activities, including planting, production, harvesting and other associated services.

4. "Ownership and decision-making structure" are the organisational capabilities, the ways in which people's capabilities are developed within the organisation. In the case of Porter's manufacturing organisations, the ownership and financial structures are rather well defined, while only the governance and/or decision-making structures are variable. In the case of the PO, both of these can take varied forms, leading to complexity in the organisation's governance, as the supplier-member is part of that structure.

3.3 Business performance indicators for producer organisations in supply chains

As in the case of Porter's manufacturing organisations, the level of value added through primary activities and the level of support offered through the secondary activities affect the POs' margins and financial effectiveness. The Porter firm has to maintain a profitable performance for its survival. In contrast, the POs need to ensure that their members as suppliers receive optimal and profitable returns for their produce. In the case of POs, it is not about maximising their own returns/profits as a PO; the extensive interest in the PO by its members can remain vital even when its financial performance is not as attractive as it would be in a normal competitive environment.

The performance indicators used within the study are related to the primary and secondary elements of Porter's framework adapted to POs (Figure 2 above).

1. Production potential of the members of the PO. This indicator reflects the potential of the members in supplying the required volume, variety and quality to meet the local market needs. This indicator covers "Inbound logistics dimension" of the primary activity and "procurement" of the secondary activity.

2. Coverage of the core activities. This indicator reflects the type and nature of support that the PO is able to offer to its SHF members and the comprehensive operational processes of the PO itself. Operational processes cover the primary

processes, such as purchasing of members' produce and transport, consolidation and processing, warehousing and transport, developing market linkages and client relationship management. Other secondary activities include ensuring accurate supply standards and setting trade terms, supporting productivity and other needs, functional and extension capabilities, and ownership and decision-making structure. In essence, this indicator covers a few elements from each of the primary and secondary activities.

3. Level of market integration of the PO. This indicator reflects how well the POs are connected and fulfil the market needs, and is measured by the type and nature of the market-side relationship with buyers and the type of business engagement (transactional vs. contractual) that is carried out. This part covers the market linkage (marketing and sales) activity within Porter's framework.

4. Financial capacity of the PO. This indicator reflects the financing and self-sustainability of the PO and is measured through the PO's ability to generate sufficient cash flow and investment finance through their core and non-core activities. The overall margins achieved in covering the primary and secondary activities reflect the financial stability of the PO.

5. Efficiency. This indicator reflects the level of efficiency the PO is able to achieve through effective planning, and monitoring and control of different activities. Technology adoption, R&D, and organisational structure also can influence this indicator while margins and financial stability are a very clear reflection of the efficiency with which the PO carries out its primary and secondary activities.

6. Human resource support. This indicator reflects the human resource capacity and the development of members, board, management and workers as its key focus. Within this indicator, the secondary activities such as human resource elements and other organisational elements are covered.

"The procurement is critical, as it is the basis for the producer organisation's capacity to define contractual commitments with buyers and become reliable market partners."



IMAGE CAPTION

Charles Kuiru, Chairman of the Umande Producers Association, at his farm in Laikipia County, Kenya. The Umande Producers Association supplies maize to schools under the Home Grown School Feeding Programme.

Research Framework

4

To better understand the PO, two principles characterising POs and identifying their capacities (Rondot, 2001) are used to develop a research framework:

1. The principle of utility: whatever its origin or size, an organisation can qualify as a PO if:
 - a. It is useful for its members; and
 - b. Members are actively committed to making it work to achieve the established objectives.
2. The principle of identity of the POs:
 - a. A history and a geographic space shared by members;
 - b. Operating rules (governance) that regulate the relations among members, and between members and the outside world, and between members and the PO staff (management and board); and
 - c. Vision of its future and what it wants to achieve.

Using the background about the need, roles and activities of the PO, the framework is developed to measure the different aspects of competitiveness of the PO in supply chains (4.1) based on a set of key performance indicators (4.2). Section 4.3 explains the research process.

4.1 The framework for PO analysis in the context of competitive markets

The authors developed an Excel-based questionnaire to analyse the ten cases from the PG-HGSF project and four external cases in different countries. The questionnaire (included in the Appendix) has approximately 125 questions on a five-point scale. The specific questions were linked to the six key business performance indicators (section 3.3) to understand the competitiveness of the PO to become an effective supply chain actor. Each key performance indicator is evaluated on a set of factors that are derived by clustering different questions that were driving the performance. SNV allocated each of these factors different weights based on subjective perception of the influence each factor has on PO competitiveness and performance. A pictorial representation in the form of a speedometer and dashboard was created to visualise the performance of the POs, and was returned to the PO for their internal evaluation.

At this stage, it must be said that there is a considerable level of subjectivity to the measurements and the benchmarking exercise carried out, as these were executed by different people with varied levels of training. However, the objective of this exercise is to



Producer Organisation Business Performance Indicators

1. Production potential of the members
2. Coverage of the core activities
3. Level of Market integration of the PO
4. Financial capacity of the PO
5. Efficiency
6. Human resource support

assess and illustrate how the business performance indicators are present in each case and move in the direction of providing better frameworks and tools for the POs to improve their competitiveness. The indicators are in the box to the left; further explanation as well as the factors influencing the performance as competitive supply chain actor can be found with the analysis in Chapter 5.

4.2 Research process

Ten cases of the PG-HGSF project and four external cases were analysed. The authors developed a questionnaire to benchmark the competitiveness objectives and dimensions, as discussed in the previous sections. This questionnaire was sent to the contact persons and SNV advisors with good

contacts among the POs in the different countries (see Table 1). Some of them were well equipped to fill out the questionnaire themselves because of their experience in working with the POs, while others filled it out with the help of PO managers or board members. Because of this approach, it was not possible to achieve standardisation of the scoring levels among the respondents. The external cases were selected from SNV work in other countries. They were not linked with a school feeding project, but related to products that could potentially be delivered to a school feeding programme (Table 2).

All cases are analysed in the next chapter, with a special focus on the three best- and poorest-performing POs per indicator, to show the most relevant factors in place. Subsequently, the analysis was sent to the field for cross-verification, feedback and additional input. Additional insights from four years of PG-HGSF project implementation and expertise of the authors was added.

For the project supported POs in Table 1 (pg 24), the main project strengthening topics are also given.

Table 1. Cases of the school feeding programme

NAME	COMPLETE NAME OF THE PO	MAJOR PRODUCT	PROJECT SUPPORT
GHANA			
Abokobi	Abokobi Area Farmers Association	Maize, pepper, okra	Training of staff and board Business planning Registration, bank account Access to finance Quality control Matchmaking meetings
Manchie	Manchie Gari processing group	Cassava	Training of staff and board Business planning Access to finance Quality control Matchmaking meetings
Sissala	Sissala East Farmers' Cooperative and Marketing Union	Maize and beans	Training farmers Registration, bank account Access to finance Quality control Storage facilities Matchmaking meetings
KENYA			
Kocholwa	Kocholwa Farmers' Cooperative Society – Elgeyo Marakwet region	Dairy and coffee. Started the grain business a few months ago after SNV urged them to diversify from the dairy business.	Training of staff and board Business planning Registration, bank account Quality control Storage facilities
Mohoba	Mohoba Farmers' Cooperative Society – Lamu region	Maize	Training farmers Training of staff and board Business planning Registration, bank account Matchmaking meetings
NAF	Narok Association of Farmers (NAF) – Narok region	Maize and beans	Registration, bank account Storage facilities Matchmaking meetings
PMO	Mt. Kenya North Produce and Marketing Organisation – Laikipia region	Maize and beans (other products)	Registration, bank account Access to finance Quality control Matchmaking meetings
MALI			
FECOPON	Fédération des Coopératives Paysannes de l'Office du Niger	Shallot onion	Training of staff and board Business planning Matchmaking meetings
ARPASO	Association des Riziculteurs de la Plaine Aménagée de San Ouest	Rice	Training of staff and board Business planning Matchmaking meetings
Céréales Banamba	Union des céréales sèches de Banamba	Sorgho, milk, maize, haricot	Registration, bank account Matchmaking meetings

Table 2. Additional SNV cases

NAME	COMPLETE NAME OF THE PO	MAJOR PRODUCT	PROJECT SUPPORT
BOLIVIA			
APT	Wheat Producers' Association Cochabamba*	Wheat	Training of staff and board Business planning Access to finance Market intelligence
ETHIOPIA			
Melka	Melka Awash Farmer Cooperative Union	Grains and beans	Training of staff and board Business planning Access to finance Market intelligence Matchmaking meetings
NEPAL			
Apple	'Kalika krishi Sahakari Sanstha, Jumla	Apple	Training of staff and board Business planning Access to finance Matchmaking meetings
TANZANIA			
UWAHE	UWAHE (Umoja wa Vikundi Vya Wakulima Hembeti)	Sunflower	Access to finance

Analysis and Insights from the Study

5

The analyses are executed for all project cases from Ghana, Kenya and Mali, and the external cases from Ethiopia, Tanzania, Nepal and Bolivia. The different results are discussed per indicator.

Note: the scores may not be used for monitoring or evaluation. This research used the scores to identify the relevance of the different indicators for competitiveness in supply chains and the factors behind it. For each indicator, information on the support topics applied by the PG-HGSF project (see Table 1, Chapter 4) is also integrated.

5.1 Production potential of the members of the producer organisation

This indicator reflects the potential of the members for supplying the required volume, variety and quality to meet the local market needs. The factors and the performance of the POs are the following:

Factors:

- Average sales growth
- PO ability to produce the volume of goods required by school feeding procurers
- Supply risk from the farmer
- Are famers obliged to deliver all the produced products?
- Is the PO allowed to buy extra products from non-member farmers?
- % of the supply under contract with farmers
- PO penalises farmers for violations in contract agreements (against free riders)
- Sustainable commercial relations with school feeding programme
- Sustainable commercial relations with other buyers

PRODUCER ORGANISATIONS: GOING INTO BUSINESS WITH FORMAL MARKETS

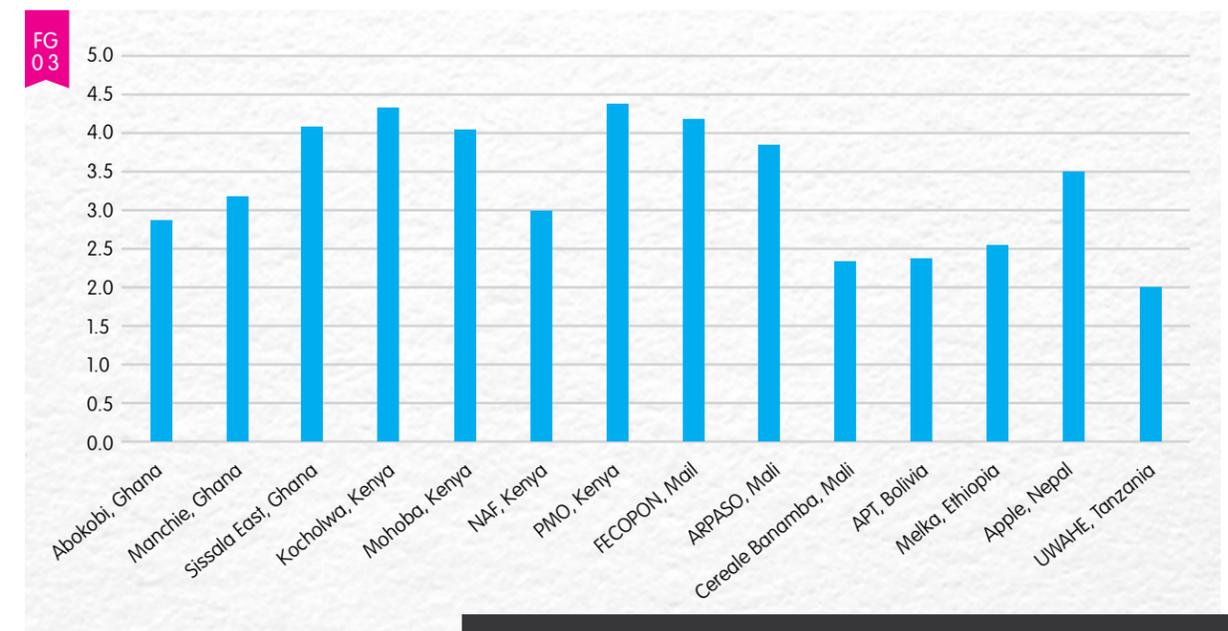


Figure 3. Production potential of the PO members (max score = 5)

Both the Kocholwa and PMO POs score high on their ability to meet the market demand, hence have a low supply risk. The Kocholwa farmers are obliged to deliver all their products for which the PO has a buyer, and the PO is allowed to buy extra products from non-member farmers. The PO has contracts with the farmer and controls the quality before receiving, thus ensuring both quantity and quality of the supply.

PMO and the third-best performing case FECOPON are also well equipped to meet the demand, but possess a more open relationship with the farmers, in which the members are not obliged to deliver to the PO. While the PMO is allowed to buy additional quantities from non-members, the FECOPON is restricted to buying only from its own farmers.

Céréales Banamba in Mali scores low (from the school feeding cases analysed) on the production potential, because it does not have a commitment for members to sell through the PO, lacks a quality control mechanism at the farm level, and the PO is not allowed to buy from non-members. All the above-indicated factors increase the supply risk for the PO.

On the other hand, the APT case of Bolivia scores low on this parameter, despite having a large member base (647 members), obligatory supply responsibility

for the members, flexibility to buy from non-members, and good quality control agreements at the farm gate. Two elements that affect the production potential are the production risk of the producers in mainly arid zones and side-selling, despite delivery obligations to the PO. The latter shows a lack of organisational strength.

Related PG-HGSF Interventions

The project has trained farmers of Mohoba in Kenya to improve their production and reduce post-harvest losses, which would positively influence their production potential. Quality control measures to guarantee that adequate products are supplied by the farmers have been supported in all 3 PO cases in Ghana and in Kocholwa and PMO in Kenya. In Kenya, a Grain Business Hub model is being developed to offer services to the farmers, such as input supply, farmer credit, with the aim to make the POs more responsive to the needs of the members and impact in increasing their production. Also in Kenya, the POs are stimulated to participate in multi-stakeholder agreements, in the context of the county level Agricultural Sector Development Plans, so their membership gets access to support from the Ministry of Agriculture and other institutions in benefit of their primary production, such as extension and subsidised inputs.

The insights from the analysis and other sources are summarised below:

- A high score of production potential is related to a stronger relation with the members (obliged + contract delivery + quality control) and open option to buy from non-members to cater to the market needs.
- There is tension between the price offered to the farmer by the PO and the market price, which may put pressure on the membership, because the PO must also be competitive in the market.
- A contractual relationship with the members on the trade terms (variety, quantity, quality, etc.) increases the POs capacity to meet the market needs and build a strong relationship with the market-side partner.
- External buying may have an ambiguous influence for this indicator. On the one hand, it gives flexibility to purchase products when members have less to supply, but conversely, it may weaken the relationship with the members and lead to side-selling. Open and transparent communication with the members is critical to manage this ambiguity. As long as the PO has the resources to purchase from non-members, the risk of non-compliance to contracts decreases.
- Incentive alignment plays a critical role in reducing supply risks. Hence, a clear communication on the realised prices and sharing any additional margins with the members can reduce the supply risk and enhance the performance of the PO.
- With more members, there is greater production, and more flexibility to cover the needs of specific markets. This is the case with Mohoba (1,201 members), Kocholwa (570) and PMO (2,143) in Kenya. On the other hand, Apple–Nepal shows that with a small number of members (50), no full delivery obligation, and flexibility to buy externally, the supply risk can also be controlled. It is possible that strong relationships with buyers facilitate members’ confidence to use the PO as a marketing channel.
- Dry-zone risk, nature, the large variety of production over the years—which is far from exceptional among smallholder farmers—increase the supply risk. Ample facilities for external buying can mitigate this negative characteristic to cover market needs.
- More financial capacity (see Section 5.4) seems to have a positive influence on the production potential.

5.2 Coverage of the core activities

This indicator reflects the type and nature of support that the PO is able to offer to its SHF members and the completeness of the different operational processes of the PO itself. Operational processes that cover the primary processes are inbound logistics, production, quality control, marketing and sales, and distribution. Secondary activities include organisational, procurement, Research and Development (R&D), and human resource development. The factors and the performance of the POs are the following:

Factors:

- Services for members (not marketing and sales)
- Marketing and sales services for buyers
- Procurement
- Research and Development (R&D) (post-harvest handling, new product, processing)
- Organisational development and human resource management (HRM)

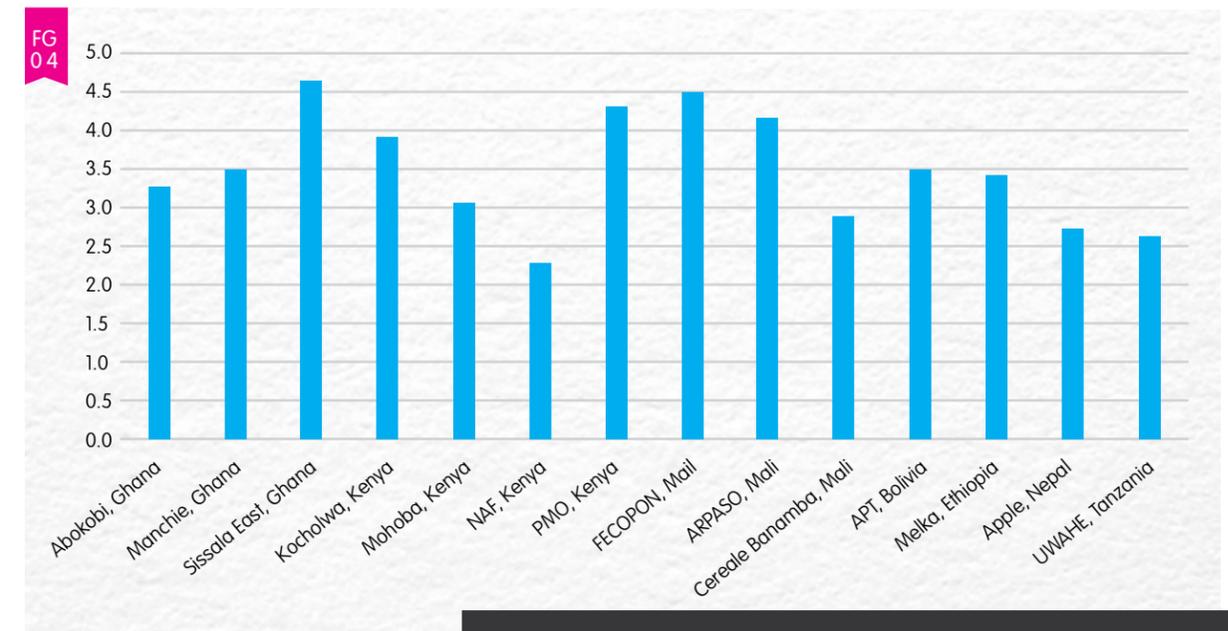


Figure 4. Coverage of core activities (max = 5)

Sissala, Ghana has the most extensive range of service activities. This includes aggregation of products, collection from the farm, quality control checks at delivery from the farmer, handling process and storage, quality check before delivery to the buyer, delivery to the buyer, collective marketing actions (based on ownership of the product) and sometimes collective marketing actions without ownership. The PO has human resource development and R&D activity to improve the internal operational processes. To improve the production capacity of the members, the PO supports the farmers with extension services and input supply, as well as renting or hiring equipment. Financial brokering (not lending from the PO) gives them access to credit. PMO Kenya has a similar balanced package of activities and focus, but is less intensive. FECOPON in Mali also scores high and has relatively the same performance.

On the contrary, NAF Kenya scores in the poor range for internal and member activities, the latter possibly due to the geographical distance to affiliated primary level POs and farmers. In the case of NAF, the farmers are geographically scattered and far from the markets. The focus is more on looking for buyers offering markets for the products of the PO.

Melka Ethiopia has a modest score and lacks services,

including quality control at delivery of the farmer and renting or hiring equipment for farmers. The PO has no development activities of its own. Regarding the internal operational processes, Melka doesn't look like a real company, it doesn't act as an extension of the economic activities of its members, but rather links them directly with markets; it functions as a support organisation for individual farmer production.

Related PG-HGSF Interventions

The PG-HGSF project supported staff training in Abokobi and Manchie in Ghana, Kocholwa and Mohoba in Kenya and FECOPON and ARPASO in Mali, to enhance the internal operations of the organisations. It also worked on establishing or improving the storage facilities, which enables the PO to develop its commercial activities for Sissala in Ghana and Kocholwa and NAF in Kenya. And in Kenya, the project hired the East African Grain Council to support POs for obtaining a Warehouse Receipt System (WRS) certification that enables them to improve their storage management and to give a guarantee for farmers that deliver their products to obtain a bank loan. The Grain Business Hub model in Kenya, mentioned in the previous section, has the objective to develop a relevant set of operations in benefit of the farmer members and to generate income from the services for the organisation.



THE PRODUCER ORGANISATION, AS AN INTERMEDIARY BETWEEN THE FARMER AND THE BUYER, COULD BE THE KEY SUPPLY CHAIN PARTNER FOR FACILITATING OPPORTUNITIES FOR THE SMALLHOLDER FARMER TO LEVERAGE STRUCTURED DEMAND MARKETS.

IMAGE CAPTION
James Gikenya, a smallholder farmer in Nakuru County, Kenya, transports kale and spinach to the market by bicycle.

The insights from the analysis of different cases on this indicator are presented as follows:

- As POs develop and strengthen as professional chain actors to make the connection between the farmers and the buyers, their aim should be to offer as complete and balanced a set of primary and secondary activities as possible. A greater volume of primary activity offers increased possibilities to generate value and income for the PO, which can be used to enhance secondary activities. Of course this must be financially feasible; at first, start-up POs may have limited resources to deliver a complete package of services. At a minimum though, they should focus on logistics, quality control and marketing activities.
- Outsourced activities via partners could be an effective bridge between the members and the buyers without requiring large investments for the PO to complete the core activities, affecting financial stability in a positive way.
- For financial sustainability, the general principle should be that the receiver of the service from the PO pays. However, POs with and without ownership of the produce should have different business models. In cases where the PO does not take ownership of the produce, the member-oriented services can be charged to the users (farmers), taking their cost structure and their margin needs into consideration. In case of ownership of the produce by the PO, the primary and secondary activities can be included in the price they pay or charge to their members and the offer they accept from the buyer.
- Among the cases, the different strategic priorities of the POs are visible, showing more weight in terms of services to farmer members, internal operations or linkage with the market. When the activities towards the members are less intensive, this may result in weak relationships with them and stagnation in the product supply and/or absence of innovation in quality and type of products. This will weaken the competitiveness of the PO in the market.
- A PO with a developed set of internal operational and development activities including R&D and HRM will enhance its performance. Especially operations related with joint selling are essential: When a PO doesn't develop its aggregation, handling, and storage activities, it will force buyers to go directly to the farmer, thereby increasing their transaction costs and reducing the competitiveness of the farmers.
- A strong linkage with buyers will support the connection to higher-value markets and lower the transaction costs. A good relationship with buyers will also help to capture price signals from the market, leading to improved quality and new products. The member services should include the transfer of this information to the farmers and help them to develop new products and improve quality.

5.3 Level of market integration of the producer organisations

This indicator reflects how well the POs are connected and can fulfil the market needs, and is measured by the type and nature of the market-side relationship with buyers and the type of business engagement (transactional vs. contractual). The factors and the performance of the POs are the following:

Factors:

- PO ownership of the product
- Type of business relationship between PO and the buyer(s)
- Market intelligence (insight in market price / volumes)
- Sustainable commercial relations with buyer(s)

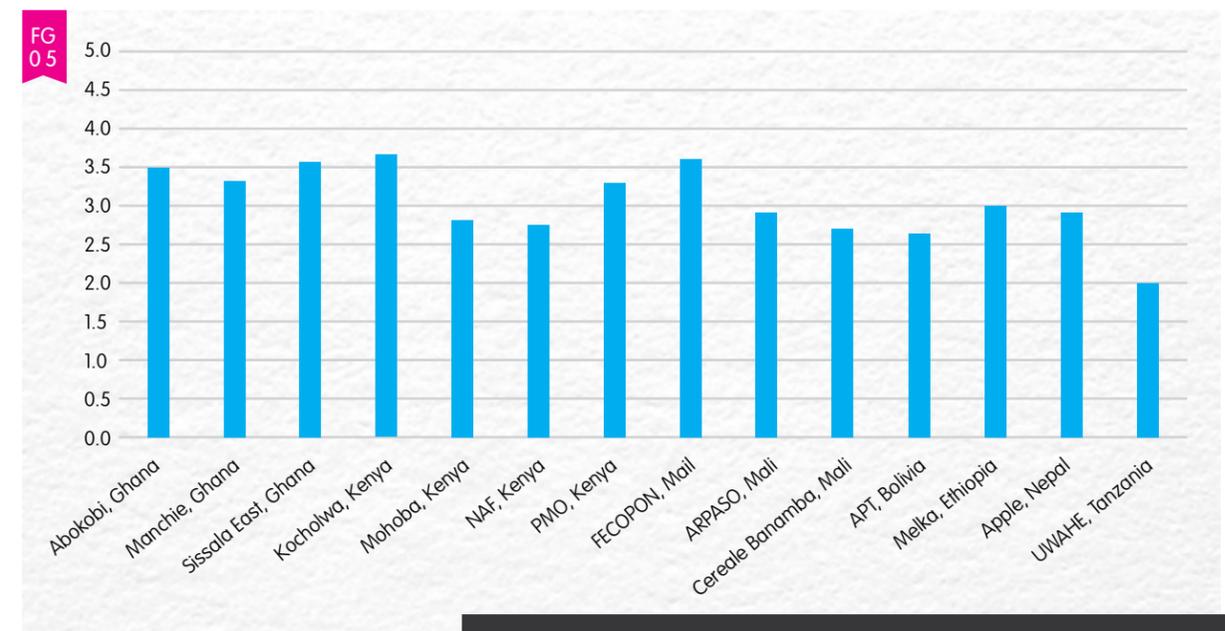


Figure 5. Level of market integration of the PO (max score = 5)

Kocholwa, Sissala and FECOPON score high and the business model is based primarily on the ownership of the products, although sometimes the PO only brokers the sale of products by the farmer. The products are sold to the private and public markets including the SF market, which expresses—as opposed to selling on a spot market—a higher level of integration of activities both on the supply and the demand sides. This leads to lowering transaction costs and strengthening the positioning of the PO. Of the best performing cases, the factor “building supply reputation” is indicated by FECOPON as important for success, even when, as in their case, the PO is reliant on the spot market. Sissala has a mix of relationships with the market: selling in the open market, to private buyers (vertical integration) and to the public sector (as the SF market); both are five- to ten-year relationships. Kocholwa only deals with the contracted buyers and does not take its produce to the spot market. All the best-performing POs have good market insights, which enable them to pass on their knowledge to their members, thus leading a cycle of supply-demand matching.

Apple–Nepal has been commercially active for less than five years. SNV supported the PO specifically to make the connection between the producers and the market. The PO sells the products based on

ownership with a focus on the private sector market with a multiple years’ relationship and sometimes the PO uses a network of agents to bring the apples to the market. The PO has mostly good insight into pricing and market volumes.

Melka works mostly as a mediator between farmers and the market and sells mostly at the spot market. This may indicate that not owning the product makes it more difficult to develop relationships with buyers.

Table 3 gives an overview of the diversity of type of market relations and the ownership of the product for the POs.

Table 3. Different types of market relations and product ownership

NAME	DIFFERENT TYPES OF MARKET RELATIONS	OWNERSHIP OF THE PRODUCT
GHANA		
Abokobi	Focus on integration (private)	Farmer
Manchie	Multiple	Both (more PO)
Sissala	Multiple, tendency spot + private	Almost always PO
KENYA		
Kocholwa	Focus on integration (private and public)	PO
Mohoba	Focus on spot market	Both
NAF	Multiple	Farmer
PMO	Multiple	Both
MALI		
FECOPON	Multiple	PO
ARPASO	Focus on spot market	Both (more PO)
Céréales Banamba	Multiple	No info
BOLIVIA		
APT	Focus on integration (private)	PO
ETHIOPIA		
Melka	Multiple, tendency towards spot market	Farmer
NEPAL		
Apple	Focus on integration (private)	Focus on integration (private)
TANZANIA		
UWAHE	Focus on integration (private)	Farmer

Related PG – HGSF Interventions

One of the project’s core interventions was the matchmaking between POs and school feeding buyers, caterers in Ghana, traders and schools in Kenya, and traders and communes (local government) in Mali, which is a direct mechanism to establish market relationships or business agreements with buyers. POs that were not registered as a business entity received support to achieve this essential requirement for formalising their relationship with other market agents. Both in Kenya and Ghana, the POs are connected with the existing market intelligence platforms Cerealmart and mFarm respectively, by getting them registered, paying initial subscription costs and training them in the use of the platform.

“POs [producer organisations] that were not registered as a business entity received support to achieve this essential requirement for formalising their relationship with other market agents.”

The key insights from the analysis of the market-side strength indicator are as follows:

- The ownership of the produce by the PO offers better positioning of the PO on the market side and also enables them to reduce supply-side risk. As a result of this business model, they are able to demand contracts from the buyers and assurances on quality, quantity and price from their members.
- Even in situations where the produce is sold through the spot market, POs that own their products can offer the advantage of better quality.

5.4 Financial capacity of the producer organisations

This indicator reflects the financing and self-sustainability scope of the POs and is measured through their ability to generate sufficient cash flow and investment finance through their core and non-core activities. Financial capacity is a basic condition to embark upon in joint marketing, as it offers the financial capacity to buy and sell products, and also inspires trust in buyers and other chain actors. The factors and the performance of the POs are the following:

Factors:

- Supply risk
- Operational administrative activity
- Financial stability
- Origin of the cash flow
- Origin of capital for investments

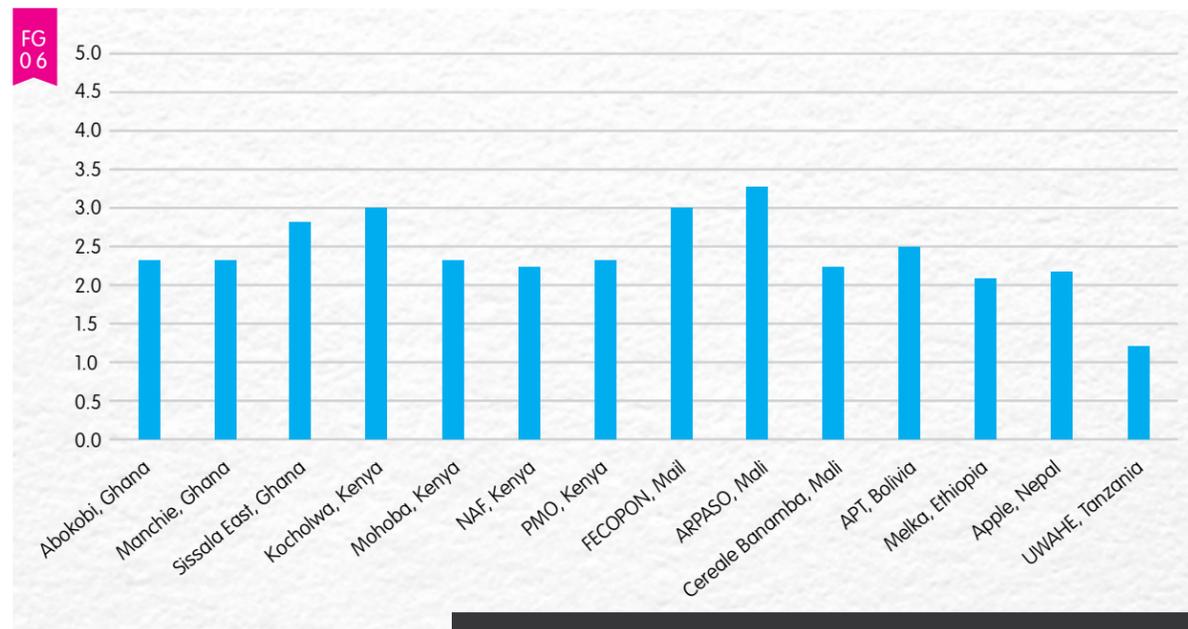


Figure 6. Financial capacity of the PO (max score = 5)

ARPASO from Mali scores high; the PO has a good financial base over many years. The management is able to show regularly (yearly, quarterly or monthly) financial reports and the PO uses a bank account. The financial administration is operating well. The origin of the cash flow is predominantly 70% from operations, 20% based on credits from financial institutions, and 10% from member fees. Capital for investments is based on savings from operations (10%), but mostly on donations (90%).

Kocholwa and FECOPON have also been financially stable over many years. The management is able to show regularly financial reports and the PO uses a bank account. The financial administration is operating well.

Abokobi from Ghana has a moderate score. The reporter estimates the buyers are satisfied with the supply. The administration and reporting activities are good. The major source for cash flow and investments are financial institutions; buyers and operations also contribute to the cash flow by prepayment. The sourcing of funding from external partners shows that the organisation is creditworthy.

The UWAHE association in Tanzania is using a bank account, but is not financially stable. The

management is not able to show regular financial reports and the financial administration is operating poorly.

Apple–Nepal shows that having a good financial administration is not sufficient for financial capacity. Other issues leading to financial risks may affect the financial stability. The perishable product itself can result in a financial risk although in this case, the PO has built storage facilities to minimise the risk. The other reason could be geographically long distances to the market and fluctuating market demands and prices. All these commercial challenges mean additional risk for the organisation and less financial capacity.

The variations among the different POs are large. Table 4 summarises the different factors.

PRODUCER ORGANISATIONS: GOING INTO BUSINESS WITH FORMAL MARKETS

Table 4. Key factors for financial capacity

5 = strongly approve | 4 = approve | 3 = undecided | 2 = disapprove | 1 = strongly disapprove

NAME	FIN. REPORTING OF MGMT IS REG & GOOD	FIN. STABILITY IS GOOD	DOMINANT FIN. SOURCE FOR CASH FLOW	DOMINANT FIN. SOURCE FOR INVESTMENTS
GHANA				
Abokobi	2	2	40% credit institutions 25% buyers 25% operations 10% members	80% loan institutions 10% donation 5% loan buyers 5% operations
Manchie	3	3	65% credit institutions 20% operations 10% credit buyers 5% member	70% loan institutions 20% donation 5% members 5% operations
Sissala	5	4	75% credit institutions 10% operations 10% member 5% credit buyers	40% buyers 40% loan institutions 20% donation
KENYA				
Kocholwa	5	4	90% operations	80% loan institutions
Mohoba	4	4	100% members	No info
NAF	1	2	98% operations	100% operations
PMO	3	2	70% operations 20% members 10% buyers	80% operations 28% loan buyers
MALI				
FECOPON	5	4	60% operation 30% credit institutions 10% member	50% savings 50% donation
ARPASO	5	5	70% operations 20% credit institutions 10% members	90% donation 10% savings
Céréales Banamba	5	2	80% operations 20% members	No info
BOLIVIA				
APT	4	3	75% operations 20% credit institutions 5% members	90% donation 10% loan institutions
ETHIOPIA				
Melka	3	4	No info	95% operations 5% donation
NEPAL				
Apple	4	2	80% member 20% operation	80% donation 20% operation
TANZANIA				
UWAHE	2	2	No info	No info



IMAGE CAPTION

A field of sorghum nearing harvest in Baringo County, Kenya. Sorghum is a drought-resistant crop grown by many smallholder farmers in the county.

Related PG-HGSF Interventions

The project has helped to develop business plans, including financial planning, for most of the POs. In addition, for all POs in Ghana and PMO in Kenya, the project supported connecting the organisations with financial institutions to facilitate access to finance for investments and working capital.

The insights from the case analysis on the financial capacity indicator can be summarised as below:

- Financial capacity is linked to the capability to organise regular financial reporting and demonstrate business continuity and a stable balance sheet. The cases demonstrate that in general, POs with a weak financial administration performance have weak financial stability.
- However, other characteristics more difficult to influence, such as perishability of the product and distance, can make financial capacity more complicated to achieve.
- Some POs are able to finance cash flow and investments based on operations. Others use external sources, and even buyers provide loans. Having access to external sources of commercial financing could be perceived as proof of financial capacity and good financial management, assuming they passed rigorous checks by those sources. Mostly, grants and subsidies are used for investment in infrastructure and other purposes. Depending on internal capital from fees issued from smallholder farmers, savings on operations may make these investments a long-term issue. Savings on operations will always be complicated, as it is in direct competition with paying better prices to the farmers or distributing dividends on profits.
- Membership fees are not a strong factor for financial capacity, inherent to the financial capacity of the smallholder members.

5.5 Efficiency and planning

This indicator reflects how much efficiency the POs are able to bring through effective planning, monitoring, and control of different activities. The focus is the measurement of use of resources, recording, production and cost control. Note: The human resource factor is analysed in the next indicator. The factors and the performance of the POs are the following:

Factors:

- Quality control checks at delivery from the farmer and to the buyer
- Contract management
- Strategic planning
- Operative planning, procedures

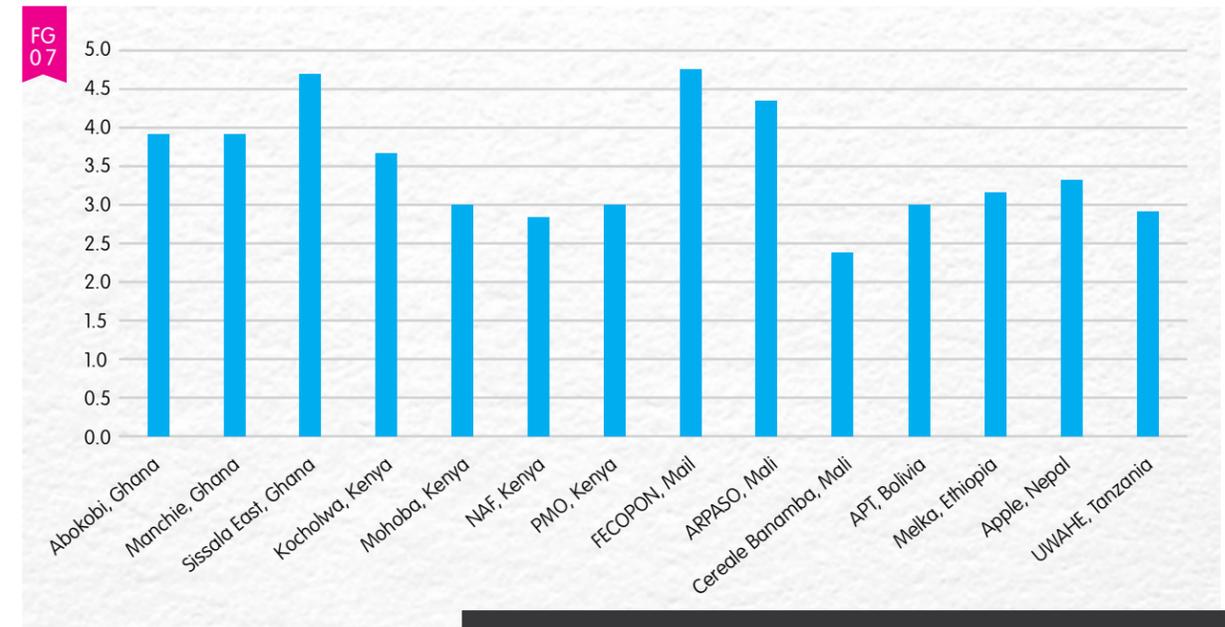


Figure 7. Efficiency and planning (max score = 5)

FECOPON and Sissala score high, with planning in place on operations, human resources, finances and strategy. They always check the deliveries of the farmer for quality before it is delivered to the buyer. The POs operate based on clear terms in the contracts with arbitration or termination if necessary and they punish members for bad compliance with supply requirements. The POs are active and invest in HRM, such as professional management, staff evaluation and training.

ARPASO in Mali also scores high and always performs operational, financial and strategic planning. The financial administration does budget planning and manages the cash flow and costs. The PO rarely checks the deliveries of the farmers, but checks the products that they deliver to their buyers. The PO operates based on contracts with the farmers with arbitrage and termination terms. The PO penalises farmers who violate the contract terms and invests in HR activities.

NAF, Kenya and Cereales Mali have low scores with both having a weak contractual relationship with the farmers' suppliers, NAF doing insufficient planning and Cereales not implementing quality checks.

As indicated in the previous section, most POs have been supported by the project in their business

planning, to develop their strategic orientation on their main activities and especially on the market opportunities of school feeding and other formal markets.

The insights from the study of different cases on the efficiency indicator can be summarised as below:

The level of planning (strategic, operational, financial) is strongly correlated with better performing organisations.

The POs that are both strategically and operationally engaged perform more efficiently and at the same time, are able to spot and invest in future opportunities—all of which is reflected in the financial performance of the organisations.

5.6 Human resource support

This indicator reflects the human resource capacity and the development elements of members, board, management and workers as its key focus. The factors and the performance of the POs are the following:

Factors:

- Capacity building with extension services
- Member/farmer support of the PO
- Human resource management (HRM) of the PO

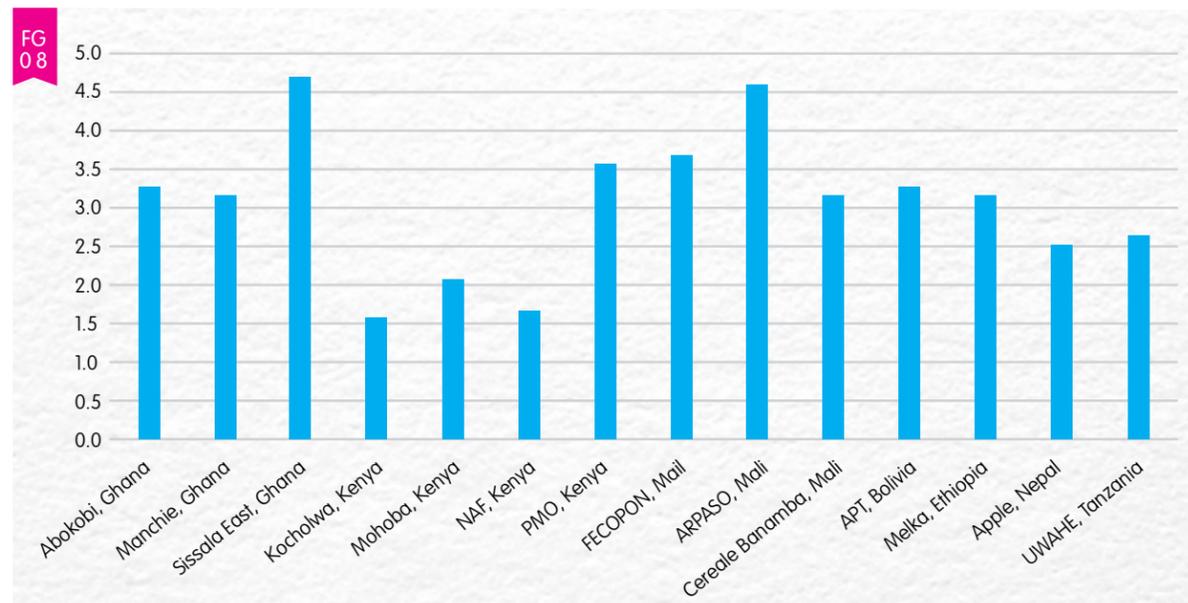


Figure 8. Human resource support (max = 5)

Sissala in Ghana has a well-organised HRM activity. They use a mix of professional board members, professional staff and hired professionals (consultants). The PO invests in capacity building of staff and members. The technical capacity of members is improved through training. The PO is actively organising more members. ARPASO in Mali is also strong all these factors and additionally has a well-developed extension service for the members.

PMO in Kenya reported a well-organised HRM activity, but has no professional board members and the level of professional staff is relatively low. The PO rarely hires professionals as consultants. The PO invests in capacity building of members, but this has not yet resulted in a professional staff. The PO offers extension services and is actively organising more members and training them. PMO sometimes uses the role model farmer concept to disseminate new knowledge and skills. The “role model farmer concept” or farmer field schools refers to using the most innovative and well-operating farmers to train and support other farmers in the community. The model farmer is trained and sometimes financially supported to train other farmers in the group. This model is an effective way to transfer sound agricultural practices from farmer to farmer.

APT in Bolivia has a moderately organised HRM activity. The level of professional board members is relatively low, but the staff is mostly professional. The PO rarely hires consultants, and invests in capacity building of staff and members; the latter by using extension services and sometimes the role model farmer concept. The PO develops a lot of training for the members and actively recruits more members.

Mohoba, Kenya has a moderate score and a poorly developed HRM structure. There is no manager or professional staff, but some of the board members are professionals and the PO invests in capacity building of the PO itself, but has no support extension service for farmers. Kocholwa Kenya, while strong in several other indicators, scores low on human resource support, due to low professional staff and no extension services or other training for the members.

Related PG-HGSF Interventions

The PG-HGSF project trained staff and board members of almost all POs, to enhance the quality of the human resources in charge of the operational and strategic management of the organisation. In Kenya, the project supported some POs to hire a professional manager, paying half of the initial salary



costs, with the idea that the managers would increase commercial activities with profit for the PO and this would enable the organisation to cover full salary costs for the long term.

The analysis of the cases on the human resource indicator leads to the following insights:

- The way different organisations manage their HRM activities differs substantially. Most of the better-performing organisations have coordinated their own human resources needs to include a professional manager and other staff, while hiring professional board members or external consultants for specific one-off tasks. Professional staffing is generally not accessible for a (starting) PO with a weak financial basis. They are clearly needed, but the financial support to pay for staff must be available.
- Regarding the human resources required to support the members, the POs can have extension services and training organised to enhance their capacity as farmers and suppliers of quality products to the PO, which contributes to the strategic and operational performance of the PO. The cases show diversity in the way this is implemented. Extension may be especially effective if done in addition to the distribution of improved inputs, such as seed and fertilisers, to be able to effectively influence the adoption of improved techniques, and thus strengthen the PO’s production capacity and reduce the supply risk.
- In general, there is a tendency to prioritise member support over professional staffing for internal processes, with the risk of not developing internal operations and not achieving a competitive value chain to link the farmers’ produce to the market.
- Promoting role model farmers as a positive way of stimulating performance of all members—and hence the production potential and competitiveness of farmers and PO as a whole—is very rare.

IMAGE CAPTION
 Mathew Rono (seated), Chairman of the Satellite Cooperative Society, signs a purchase agreement for cereals with his counterpart from the Sigoro Farmers Cooperative Society in Baringo County, Kenya.

Recommended Interventions

6

After analysing the competitiveness of the PO as link between smallholder farmers and markets, we describe in this chapter the interventions needed to improve performance. Looking at the different results of the performance indicators, some clusters of factors are occurring. Based on the outcome of the literature and the survey, a set of interventions was developed to answer the question: How to develop the PO with strong capabilities to become an effective value chain actor that links smallholder farmers with structured demand and other markets? It is not a blueprint, but a set of five areas around essential issues that need to be addressed.

1. Manage supply risk:

The market, especially structured demand and higher value markets, requires secured supply in terms of volume, quality and price. A stable relationship between the farmers and the PO will help to ensure the supply to the market. This can be achieved by PO ownership of the product. When the PO is allowed to buy extra products from non-members, the supply risk decreases. To strengthen the PO capacity to buy and bulk products, working capital is needed, which will be difficult to generate internally by member fees and savings on operations. Linking the PO with external financial sources with adequate conditions can be part of this intervention. Supporting the development of internal arrangements to promote the obligation of delivery by member farmers and for deferred payments are other issues to discuss with the PO.

Improving farmers' production via extension services and input distribution is an important part of the intervention. This could strengthen the PO to acquire the required professional capacity within the organisation or through subcontracting from external service providers, with the aim of improving the agricultural production of the farmers and ultimately, the supply to the PO.

Managing the supply risk is also related to quality control. A quality check when the product leaves the farm gate to be delivered to the PO and quality-based pricing lower the risk of supply, because the PO ensures to aggregate the quality that is required by the buyers.

The PO with good storage facilities is better able to spread the sales and manage both peak supply and demand throughout the year. The overall margin will improve. Good storage, however, requires good facilities and management to maintain good quality. A comprehensive intervention to improve the management of the supply risk of the PO needs to include storage and quality management components.

2. Strengthen membership:

Some POs are mature in their business, and some are young, but growing fast. Over time, it is possible that the number of members decreases due to a formalisation of the relationship between PO and farmer, a higher level of required professional attitude of the farmers, or higher product requirements defined by the PO based on the exigencies of its buyers. The decrease can go with a development of farmers increasing their commercial ambitions and expanding their production activities and becoming bigger. A decrease is therefore not always a negative sign, but in general, it is important to support POs to attract new members to become a more commercial and relevant organisation.

In all circumstances, it is important to strengthen the identification of the members with the PO as owners and suppliers, so that they become conscious of the balance needed between their own and the PO's interest. Interventions to strengthen the PO in this area by training are important, but also supporting the formalisation of the relationship between the farmers and the PO by:

- Developing contracts with arbitration and product checks to ensure volume and quality.
- Establishing supportive services by way of the PO to improve the performance (production) of the farmers. Examples are training in good agricultural practices, extension services, and member support to access financial resources and equipment, input supply of fertilisers, seeds and agro chemicals.
- Supporting internal discussions about the financial relationship between members and the PO: What is the level of keeping the margins on sales in the PO to invest in marketing, human resources and production and storage facilities, against paying a higher price to the members? The percentage paid back to the members or level of member loans / fees signals a strong relationship and trust between the members and PO management. The delayed payment to farmers also indicates the members' level of trust in their organisation.

3. Management of the PO as a company:

A professional management of the PO is essential. The PO operates as a company with major activities:

- Handling the products from the farmer to the buyer (primary activity): bulking, quality control, post-harvest handling, processing, and outbound logistics including packaging, storage and transport to the buyer. To cover the needs of the buyers, flexibility and the ability to organise the connections with farmers and buyers is essential.
- Administration and marketing: The administrative processes include planning the product flow, cash flow and investments, bookkeeping, and reporting for internal discussions with the board and members, as well as external information to give confidence to financial institutions and buyers. Long-term strategic or business planning (three to five years) to establish the right priorities for investments and adapt to new opportunities and threats are critical, as well as the annual operational

planning to guarantee that cash flow and human resources are used in an efficient way. The use of a bank account to control the cash flow is an essential first step.

- HRM activities for board, staff and members are necessary to provide a learning environment with the goal of improving operations.
- External intervention needs to design strategies to strengthen those operations, but also promote decisions on finding the balance between outsourcing and operating the activities by the PO itself. Young POs especially can decide not to become owners of the product. They can procure facilities like storage and trucks, but also look for professional support for administration, management, extension, the board, etc., to reduce costs and improve the quality of the operations. When the sales and financial capacity increase, more can gradually be operated based on ownership / employment by the PO itself. The PG-HGSF project is paying part of the initial salary costs of the manager in a few POs to stimulate them to establish a professional management and improve their operations, of which costs should be taken over completely by the POs.

4. Develop market and buyer relationships:

The stronger the contracts and the longer the relationship, the lower the transaction costs, resulting in higher margins. The advantage for the buyer is a more secure supply in terms of volume and quality. To spread risk, the PO can develop multiple types of relationships with different buyers. Ownership of the product allows the PO to handle more freely the relationships with the buyers and to optimise opportunity vs. risk decision making.

The advantage of a good relationship is that the PO gains more insight into the price-setting mechanism and needs of the buyer, for example, via feedback in the form of appreciation of the product. This insight supports the relationship with the members and gives guidance for improvement of a farmer's production and post-harvest handling by the PO. Another advantage is that a good relationship will increase the options for access to microfinance institutions and loans of buyers, using the relationship as collateral.

External intervention to support the development of market and buyer relations needs to include market intelligence, matchmaking, accompaniment in negotiations, and follow-up interactions on contract compliance between the PO and buyer.

5. Optimise the financial capacity of the PO:

There are different options for cash flow and investment finance sources: margin of operations, membership fees, loans from buyers, members, or microfinance institutions. More mature and professional POs have a balanced mixture of sources, which is a base for financial capacity. External partners gain confidence in the organisation when operations are implemented in an effective way; they may become a willing partner of the commercial portfolio of the PO or offer loans for the longer term. Donors prefer to work with stronger organisations to show impact in their membership, the smallholder farmers, but they will only provide temporary investment funds. Finally, optimal financial capacity is related to good fiscal management.

External interventions to optimise the financial capacity must support the establishment of a diversified financial base, building and managing the partnerships with different actors, and giving guidance to efficient and transparent financial management of the PO's operations.

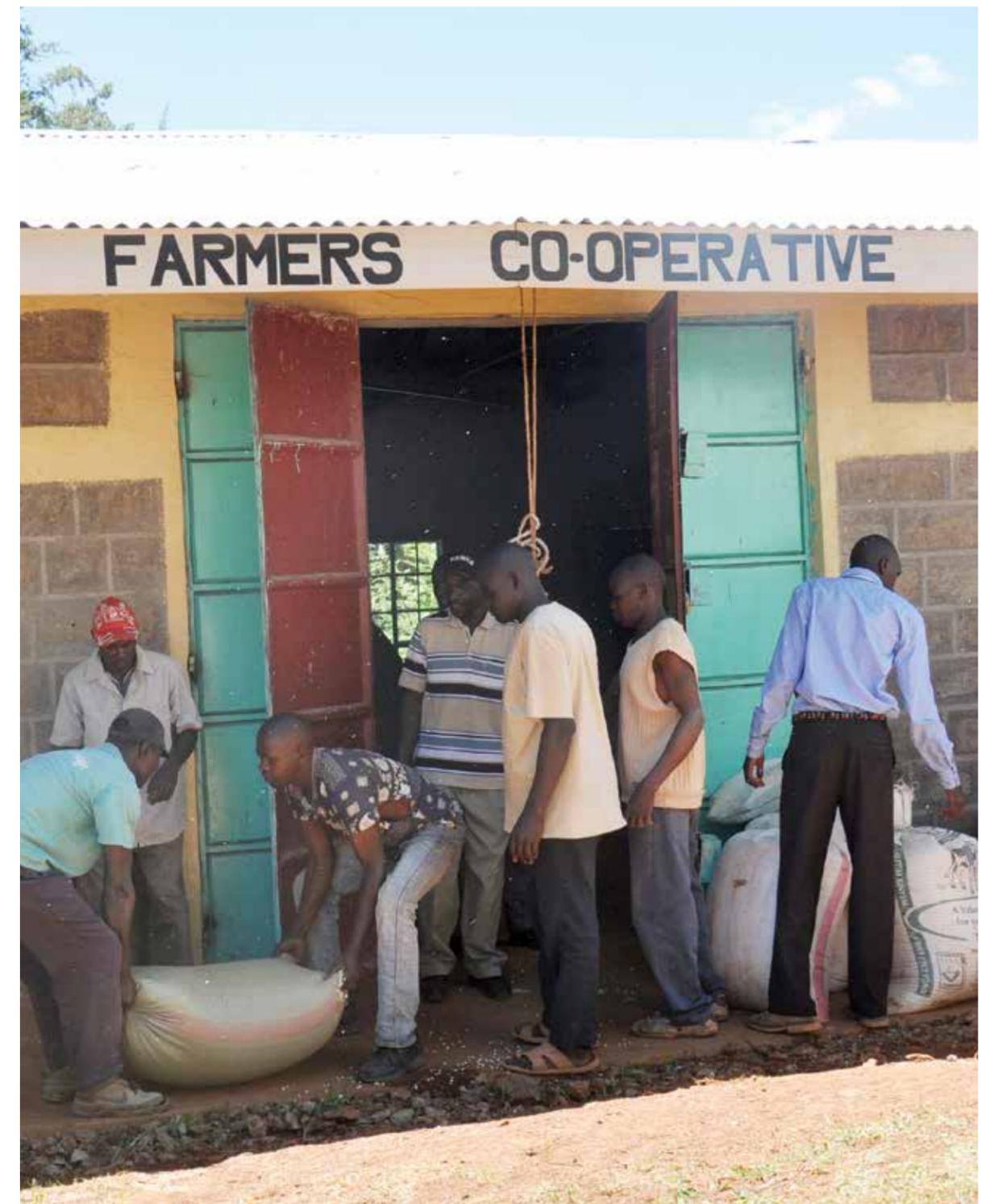


IMAGE CAPTION Workers at the Sigoro Farmers Cooperative Society in Baringo County, Kenya, prepare sacks of maize to weigh at their stores.

Conclusions

7

The developed PO competitiveness framework with six indicators about the relationship with the school feeding market made it possible to study and compare the situations of the fourteen PO cases in seven different countries. Reference was made to project activities that supported the POs in Ghana, Kenya and Mali and their relation with the areas of performance. Based on this analysis, a relevant set of interventions is proposed for strengthening producer organisations to become the effective value chain link for connecting the smallholder farmers to structured demand market opportunities, such as school feeding programmes and other formal markets. The major conclusions from this study are summarised below:

1. The methodology compared performance on indicators, but does not allow ranking among the PO cases, as the authors did not have access to clear results data and because the qualifications were done by different people without initial training on the assessment of the criteria to mitigate subjectivity. However, the cases do show a very rich level of experience of POs active in different settings and value chains, and engaging with different types of markets. That richness provides much valuable input for potential future research areas to increase the performance. The framework was very useful to learn about different ways POs are functioning and to develop ideas and strategies for strengthening them.

2. The PO should be structured and act like a competitive firm in a normal business setting, and should develop a competitive strategy to serve its value chains partners—in this case, members and buyers—with primary and secondary activities. The fine-tuned Porter's model presented in this study can provide the POs with an overview of activities needed to establish a competitive and durable business.

3. The six general key performance indicators used in this study (production potential of the members of the PO, coverage of the core activities, level of market integration, financial capacity, efficiency of the organisation, human resources support) provide a tool to measure and compare the business performance of the POs and can be used to identify areas for improvement. The study used a subjective way of weighting among the different factors for each indicator. This weighting already leads to interesting discussion on the importance of the different elements and is a good start for the discussion about the outcomes.

4. The range of activities and the level of performance is broad, as are the differences between the POs. Due to the range of variables based on differences among countries

and the different production, operations, scale and history of the POs, there is no blueprint for a specific set of activities that will lead to the most competitive and best-performing PO for members and buyers. However, the results offer rich opportunities for learning, and for advisors and managers working with and within the PO to develop their own business-oriented organisational strengthening plan.

5. As five key intervention areas, we propose: (1) manage supply risk, (2) strengthen membership, (3) manage the PO as a company, (4) develop market and buyer relations, and (5) optimise the financial capacity of the PO.

6. The project has applied interventions that are relevant for all the performance areas of the POs and will influence the POs toward increased business orientation, allowing them to enter structured demand and other formal markets. Data on business results of the POs were not sufficiently reported and a more precise and in situ evaluation is needed to define to what extent the project activities have been effective. From the available information, it can be deduced that more strategic coherence in the interventions that cover all five key intervention areas proposed by this study would be recommended.

Producer organisations can play an essential role for smallholder farmers to connect with school feeding and other structured demand and formal markets. However, POs have been found to be weak in Africa; the project found that farmers were mostly organised for other purposes than being the commercial agent of the SHF. Yet it is evident that the possibility of accessing these markets, where complying with technical requirements and being competitive are mandatory, can represent an important trigger for SHF to become better organised and invest in the business orientation of their PO. But this requires support of professional development actors to accompany the PO in a strategic strengthening process. Advisors and managers of the PO should assess what interventions and measures fit best in the specific stage of development and the context of the PO. The competitiveness framework for POs, explained and applied in this study, can be used to evaluate the supply or product chain, the PO organisation and its role in this chain. From there, the five proposed intervention areas can guide the design of a comprehensive set of improvements to transform the POs into the competitive companies the SHF need to grow their income and develop their agricultural practice.



IMAGE CAPTION

Sarah Wanjiku, a smallholder farmer in Nakuru County, Kenya, holds a bunch of kale at her farm.

Appendix: Questionnaire to Analyse PO Competitiveness



PROFILE

Name: _____

Country: _____

Number of members 2014: _____

Number of members 2013: _____

Number of members 2012: _____

Number of members 2011: _____

How would you categorise the members and how are they defined (may select more than one):

Smallholder farmers

Medium farmers

Commercial farmers

Farmers acting as traders

Traders, non farmers

State of development: _____

Type or level of the producer organisation: _____

Services of the organisation (at secondary or primary level) for buyers. The PO:

Aggregates products, collects from the farm

Performs quality control checks at delivery from the farmer

Handles, processes and stores

Checks quality before delivery to buyer

Delivers to buyer

Performs collective marketing actions (based on ownership of the product)

Performs collective marketing actions WITHOUT ownership

Service of the primary (at secondary or primary level) for members. The PO:

Supports farmers with extension services

Supports farmers with inputs distribution (seeds, fertiliser, crop protection, etc.)

Supports farmers with renting or hiring equipment

Supports financially, including brokering with financial institutions (the PO does not lend money or provide collateral to farmers)

Number of commercial agricultural products: _____

Mention the major products commercialised / channelled with the support of the PO: _____

Volume tonnes 2014: _____

Volume tonnes 2013: _____

Volume tonnes 2012: _____

Volume tonnes 2011: _____

Sales US\$ 2014: _____

Sales US\$ 2013: _____

Sales US\$ 2012: _____

Sales US\$ 2011: _____

Sales School feeding programs in % of total sales year 2014: _____

Sales School feeding programs in % of total sales year 2013: _____

Sales School feeding programs in % of total sales year 2012: _____

Sales School feeding programs in % of total sales year 2011: _____

Type market linkage. The PO sells the products to the:

Spot market: conventional relationship based on bargaining and negotiation

Vertical integration: private structured demand market

Vertical integration: public-based structured demand market

Networks of agents: based on trust, among relatives, or people belonging to the same ethnic group

Hybrid forms of governance

Key factors for Inclusive Collaboration in the Chain

Volume coverage of the market need:

Supply risk:

Farmers are obliged to deliver all the produced products:

Is the PO allowed to buy extra products from non-member farmers?:

Assortment:

Marketing and sales SFP:

Marketing and sales other buyers:

Price negotiation elements of setting a product price:

- Costs:
- Market intelligence (insight in market price / volumes):
- Services (delivery, storage):
- Quality (extra, more than minimum requirement):

Contract management, the role of PO setting contract terms:

What % of the supply is under contract with farmers?:

The PO has guidelines to reward best-performing farmers and use them as role models through incentives:

The PO penalises farmers in violation of contract agreements:

The PO has clear terms in terminating contracts with farmers:

The PO has arbitration strategies to mitigate conflicts arising from contracts:

Member satisfaction:

Sustainable commercial relations – SFP:

Sustainable commercial relations – other buyers:

Operating costs per ton:

Management of the PO:

- Strategic planning:
- Operative planning, procedures:
- Financial administration:
- Administration is operational:
- Budget cycle is available and used:

- Cost management system:
- Cash flow management:
- Usage bank account:
- Financial reporting:

Procurement:

Research and development (R&D) (post-harvest handling, new products, processing):

Human Resource Management (HRM):

- Daily management; includes board members:
- Professional staff:
- Evaluation system of the staff:
- Budget for training:
- Hired professionals:
- Professional board members:

Organisation (infra)structure like ICT:

Financial capacity:

Origin of cash flow through the organisation, by %:

- From operations:
- Membership fees:
- Credit from financial institution:
- Credit from buyers:

Origin of capital for investments, by %:

- Savings (profit) of the operations used for long-term investments:
- Investments loans from financial institutions:
- Investment loans from buyers:
- Donation:

Governance:

Gender:

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Endnotes



(1) For the purposes of this study, we interpret farmers as smallholder farmers, and we focus specifically on commercial partnerships in the chain.

(2) Free riders are member farmers that sell their products outside the PO directly to traders, while benefiting from other services of the PO; being part of the planned supply capacity of the PO; and being taken into account in commercial agreements with buyers. Some PO statutes allow this; some do not.

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DOCUMENTS

Challenges and Opportunities: Smallholders and School Feeding Initial Baseline report

Analysis of Supply Chain Studies for Home Grown School Feeding

Inclusive Procurement and Transparency: Connecting Smallholder Farmers to School Feeding

CASES

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Linking school feeding caterers to finance: Loan opportunities enabling caterer purchases from smallholder farmers

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