

AID-FOR-TRADE CASE STORY

GUATEMALA

ENTREPRENEURIAL DEVELOPMENT OF COOPERATIVE FEDERATIONS IN GUATEMALA

Date of submission: January 31 2011

Region: Central America

Country: Guatemala, Canada

Type: Project for Entrepreneurial Development of Cooperative Federations in Guatemala.

(PRODEF) - \$7 million, 2002-2011

Author: Fauzya Moore, 819-994-6861

Contact Details: Hugo Cameron, +41 (0)22-919-9293

Consultation and Advice: The Federation of Co-operatives of Alta Verapaz (FEDECOVERA) and the Société de coopération pour le développement international (SOCODEVI)

EXECUTIVE SUMMARY

Guatemala has significant levels of rural poverty, particularly amongst indigenous and rural populations. This case story demonstrates a partnership of a Guatemalan producer organization, the Federation of Co-operatives of Alta Verapaz (FEDECOVERA) with the Société de coopération pour le développement international (SOCODEVI) based in Québec, Canada. This partnership, funded by the Canadian International Development Agency, was successful in creating a new export crop, cardamom, for rural co-operatives amongst the Mayan, Q'eqchi and Pocomchi peoples of Guatemala, and benefitted about 12,400 households in total.

The *Entrepreneurial Development of Cooperative Federations Project (PRODEF)* began in 2002 with two Guatemalan co-operative Federations, the Federation of Agricultural Co-operatives of Guatemala (FEDECOAG) and FEDECOVERA. The Federations are two of the largest rural co-operative federations in Guatemala. FEDECOVERA alone reaches approximately 60,000 people.

The main objective of the program was to increase agricultural productivity, augment consumer access to food, and improve rural competitiveness within the two Federations. In the course of implementation, SOCODEVI recognised the potential for Cardamom exports in FEDECOVERA. Guatemala was an exporter of Cardamom, but FEDECOVERA had no capacity to export, and produced only limited quantities of Cardamom.

In the second part of the project, the two organizations partnered to develop Cardamom as an export crop, providing a high rate of return to producers and improving access to food and livelihoods in general. In 2002, FEDECOVERA had no capacity to export Cardamom. In 2005-2006, FEDECOVERA exported 40 tons of Cardamom to international markets. Four years later, in 2009-2010, FEDECOVERA exported around 400 tons of Cardamom internationally. This enhanced economic activity has led to increases in family income of 24-35% for the producers involved. FEDECOVERA is today exporting to 20 countries. Guatemala is now the world's largest exporter of Cardamom. The value of Guatemalan exports increased from USD 93,293,000 in 2002 to USD 304,057,200 in 2009, a threefold increase (source: Banco de Guatemala, 2010).

The SOCODEVI/FEDECOVERA/CIDA experience has generated a number of lessons on successful partnership between organizations from developed and developing countries in Aid for Trade. It also demonstrated the important role of both venture capital and a close mentoring process in building productive capacity. The project had an important gender dimension, in that efforts were made to bring female members of the co-

operatives into all levels of the production cycle and decision-making processes. Two of the participating rural co-operatives now have female presidents.

ISSUES ADDRESSED

Poverty and Food Security

Guatemala has one of the highest poverty rates in Latin America. The World Bank estimates that in 2006, 51% of the population lived in poverty. The poverty rate for indigenous groups was 56%, as opposed to 44% for the non-indigenous population. Indigenous populations concentrated in former conflict zones and rural populations were more likely to live in poverty. Poverty and inequality remained concentrated in rural areas, with a 70% poverty rate. 49% of Guatemalan children under the age of five suffered from chronic malnutrition.

CIDA's program in Guatemala focuses on food security through rural agricultural development. CIDA's decision to finance a partnership between SOCODEVI, a Canadian network of co-operative enterprises and mutuels that since 1985 has provided support to over 600 co-operative and mutual enterprises in 40 developing countries and the Guatemalan Federations was based on the commitment to address rural food security. Food security was a particularly pressing problem for the Guatemalan Federations after the thirty-six year civil war.

The PRODEF project was situated in Alta Verapaz amongst a primarily indigenous rural population – Mayan, Q'eqchi and Pocomchi peoples. It was originally designed to help FEDECOVERA and FEDECOAG become more viable. SOCODEVI had worked in Guatemala since 1986.

Improving Agricultural Productivity and Modernizing Business Practices (Phase one - C\$5 million)

The original intent of the PRODEF project was to increase agricultural productivity, augment consumer access to food, and improve rural competitiveness within the two Federations, in part through business modernization. FEDECOAG already produced snow peas, and FEDECOVERA produced coffee, tea, some forest products, and some Cardamom for the domestic market. This phase of the project ended in 2005. The project's immediate objectives were to improve rural agricultural productivity and modernize business practice in FEDECOAG and FEDECOVERA. This was done by:

- Strengthening the organizational, administrative and entrepreneurial capacity of the producer groups in particular via the services offered by the Federations (extension services, loans, inputs) to its member co-operatives;
- Strengthening the capacity to generate the financing necessary for development;
- Focussing on enhancing productive capacities; and
- Focussing on business modernization.

Developing an Exportable Product (Phase two - C\$2 million)

In the second phase of the project, support to FEDECOAG ended, but SOCODEVI decided to work with FEDECOVERA to enhance the production of Cardamom and attempt its export. Several factors played into SOCODEVI's decision:

- Guatemala was already producing Cardamom for global markets;
- FEDECOVERA had already completed a successful business modernization process and was implementing an updated business plan;
- FEDECOVERA had some capacity to grow Cardamom, but no capacity to dry it or to export to international markets;
- The main value added in Cardamom production accrues to the exporter, not to the producer – to develop sustainable livelihoods from Cardamom, the producers needed to export the crop;
- FEDECOVERA is 100% owned by small producers and therefore the return on the investment would accrue to members of the co-operative.

Accordingly, SOCODEVI and FEDECOVERA developed a partnership/mentorship program to:

- Help FEDECOVERA better understand the business of international export;
- Train FEDECOVERA personnel in logistics, commercialization and export readiness;
- Prepare for export fairs – SIAL in Paris, ANUGA and BIOFACH in Germany; and
- Provide English Training at the University of New Brunswick (English Second Language Program)

With business modernization already in place, the SOCODEVI group focussed on developing know-how for export amongst the FEDECOVERA management team. International exposure was primarily via trade fairs, and it paid off as orders came in from Germany following the first two trade fairs, and subsequently France. As export markets developed, FEDECOVERA took on the job of revamping its labelling, packaging, and publicity. It obtained an international certification for organic Cardamom, which has since become a major part of its exports.

Further, to integrate women into key project activities, PRODEF increased the number of women associates participating at the decision-making level. The project increased the capacity of FEDECOVERA to mainstream gender through employment of a full-time gender specialist, and introduced gender indicators. Women in the co-operatives were trained in family business, and two co-operatives appointed women presidents.

OBJECTIVES PURSUED

This project's immediate objectives were to improve rural agricultural productivity and modernize business practice in the two Federations (FEDECOAG and FEDECOVERA). This was done by:

- Strengthening the organizational, administrative and entrepreneurial capacity of the producer groups in particular via the services offered by the Federations (extension services, loans, inputs) to its member co-operatives;
- Strengthening the capacity to generate the financing necessary for development;
- Focussing on enhancing productive capacities; and
- Focussing on business modernization.

The project's medium term objectives emerged after the initial phase, when SOCODEVI recognized the potential in FEDECOVERA to export Cardamom:

- Working with FEDECOVERA to demonstrate that the Federation could export overseas;
- Developing export markets overseas;
- Ensuring the sustainability of the production process once funding had ceased; and
- Ensuring participation of the communities - in particular women - in the process of modernised decision-making and management.

The project's long-term objectives were to:

- Improve income generation that would in turn ensure consumer access for women and men to food products;
- Improve the competitiveness of small-scale farmers and small business owners who were members of the rural co-operatives;
- Reduce rural poverty by increasing sustainable agricultural production and marketing; and
- Support the economic growth of the rural and indigenous communities involved.

DESIGN AND IMPLEMENTATION

Structure and Financing

The project was initially a partnership between SOCODEVI and the two Guatemalan federations. Financing

amounted to C\$7 million from 2002-2011. Approximately C\$ 5 million was allocated to phase one (business modernization and raising productivity) and over C\$ 2 million to phase two, Cardamom production for export. Financing included the following on a declining basis:

- Financing of the implementing agency, SOCODEVI.
- Salaries of local technical staff (decreasing share over the length of the project)
Technical staff included: a production manager, industrial activities coordinator, technical assistance coordinator, and production technicians.
- An investment fund that enabled partners to make critical investments (for example, vehicles, processing equipment, operating costs, etc) under the supervision of the implementing agency.
- A revolving loan fund for production and a fund to support marketing.

Under the administrative supervision of FEDECOVERA, the funds enabled purchases of inputs such as fertilizers and pesticides, and assisted in the commercialization of the Cardamom industry. These funds were revolving, loans were made to one person or business at a time and, as repayments were made, funds became available for new loans to other businesses.

PROBLEMS ENCOUNTERED

Environmental: Guatemala is one of the most susceptible countries in the world to natural disasters.

In mid 2009, a severe drought hit the country and caused extensive crop failure.

In 2009-2010, total exports declined to 400 tons, from 491 tons in the previous year, due to a drop in total production. Yet a significant increase in the price of Cardamom (Cardamom has a high price elasticity), offset the production losses, providing all those involved with higher profit margins.

Cultural: One of the biggest challenges of the project was modifying longstanding cultural and organizational views of self-reliance and self-help with a culture of business modernization and export development. This process took up much of the time of both the Federation and the implementing Agency. It took two years to develop the view that it was possible for the Federation to manage an international export business.

FACTORS FOR SUCCESS / FAILURE

- A focus on the doable – a crop and an export market that already existed, but the know-how to export internationally was missing in the rural population;
- An intensive process of preparation for export was supported by a sufficient amount of venture capital and training to make it possible;
- Cohesion amongst the Federation’s membership around the single objective of developing Cardamom for export to international markets;
- Promotion of gender equality principles into all levels – women were encouraged to become producers, managers and participants in decision-making.

RESULTS ACHIEVED

By 2005-2006 FEDECOVERA had produced 40 tons of Cardamom for export, most of which were supplied to Germany. Four years later, 2009-2010, FEDECOVERA exported around 400 tons of Cardamom internationally to 20 countries in North America, Europe, Japan, the Middle East and South Asia. This enhanced economic activity led to increases in family income of 24-35% for the producers involved.

The Federation also rented a factory site and bought equipment to set up a drying plant. In 2006-2007, it bought the factory site. In 2009-2010 FEDECOVERA achieved profits of US\$2.75 million. These profits enabled FEDECOVERA to provide fourteen key services for free, including building and maintaining schools and health services, to the 12,400 families of the FEDECOVERA network.

FEDECOVERA also implemented a hedging strategy to identify niche markets for high quality labels, which in

turn guaranteed the best customers for the higher value products and long-term relations. This strategy provided some security in the event of a drop in production, as happened in 2009 after a prolonged drought. In addition, because of international certification, sales of organic Cardamom shot up, reaching as much as 63% of total sales in 2010 compared to 31% for the 2008-2009 harvest.

This 7-year project is drawing to an end, and has displayed impressive results. Support to FEDECOVERA created more jobs by increasing the sale of Cardamom; the project contributed to increasing yields in the production of Cardamom; and finally, it created new economic opportunities by improving access to international export markets.

Specifically on gender results:

Efforts to integrate women into key project activities increased following a mid-term evaluation in 2005. PRODEF succeeded in increasing the number of women associates participating in local cooperatives, including at the decision making level. The project increased capacity in mainstreaming gender considerations and benefitted for a time from the support of a full-time gender specialist. Gender indicators were introduced into the project logic model and work plans with specific activities and services, including to child care, language facilitation, and appropriate time schedules.

The presence of co-operatives in a single zone benefitted all producers in the area, since they decreased price volatility and ensured fair prices for all producers in the zone.

LESSONS LEARNED

In FEDECOVERA's words, the discovery and development of the concept of a production chain for Cardamom, and the consolidation of administrative and management strategies were among the key defining moments in the drive to export.

SOCODEVI maintains that:

- Investment in building human capacity was as important to the success of this project as the injection of capital into the Federation to help boost export capacity.
- Active participation from all main actors from the start of the project through project management, business decision-making, and cost sharing as well as risk and responsibility sharing in the project's activities were crucial for success.
- The collaboration with membership driven organizations whose fundamental *raison d'être* was the promotion of local economic growth such as co-operative federations increased significantly the chances of successful interventions.

CIDA notes that in a development project such as PRODEF where there were several actors, it was useful for the executing agency to have access to financial information of the producers involved in the cooperative, particularly regarding sales. Such disclosure assured the quality of information presented to the management committee.

CIDA also notes that the deliberate involvement of women in the decision-making of the project is an important contributory factor to its sustainability.

The project has several interesting lessons for the dialogue in the Aid for Trade world about building export capacity:

- It was incremental – it built on an existing market (Guatemala already exported Cardamom).
- It helped small producers modernize to the point where they could manage the production chain from production, to transformation, to marketing. Since the main value added of Cardamom production is in the export market, the project helped reduce rural poverty by generating income.
- It was executed with smallholders using a participatory methodology that had been used successfully used in other sectors
- It was culture-specific, and implemented by organizations that had a long track record in the country and understood the dynamics of change.

CONCLUSION

This project improved the lives of the farmers and their families who were working in Cardamom production through FEDECOVERA. It was successful in increasing family income and job creation for women entrepreneurs. Even though the project is drawing to a close, the Federation will continue to support the cooperatives, and will continue to improve infrastructure and support farmers in improving their plantations.

FEDECOVERA may need to have a social safety net to deal with difficult years, and will need to build financial capacity to pay the expenses for services provided to partners, including basic education and health. At the same time, FEDECOVERA now has the capacity to support the development of other businesses and other production chains with new groups and crops, such as cocoa.

ANNEXES / REFERENCES

The Federation of Cooperatives of Verapaces (FEDECOVERA)

<http://www.fedecovera.com/english/frameset.html>

http://www.socodevi.org/en/a_propos/publications.php (SOCODEVI)