

# Review of Experiences on Market Oriented Agricultural Advisory Services

## Case study

### DELAP, Potosi, Technical Assistance to Sale of Produce in Bolivia

Peter Weigelt, Danida Adviser, DELAP, Potosí, Bolivia, August 7, 2006

#### Background

Danida's Agricultural Sector Program in Bolivia has a local component, which aims to **"improve the income of the target population through improved production, commercialisation and transformation of produce"**, the target population being commercial agricultural producers in selected municipalities in the departments of Chuquisaca and Potosí in the South of Bolivia. This case is from Potosí.

#### The problem

During the first phase of the Program, 2000 – 2005, the efforts were centred on the improvement of production through transfer of technology (technical assistance and subsidised farm investments) and investments in small irrigation schemes. Productivity, and, to a lesser extent, the quality of the produce were improved. Also, farmers with commercial interests were organised in local associations, normally on a village basis.

Family net income from agriculture did increase to the order of 15% during the five years, but the commercial potential of the increased and improved cash-crop production was not fully realised, basically because the sales system remained unchanged. In spite of being organised, the farmers kept selling their produce on an individual basis and in the local market, being to an extreme extent price-takers. Also the produce was sold in bulk with no or little regard for quality.

It was therefore obvious that the second phase of the Program should focus more on commercialisation and local transformation, thus improving the market conditions for the producers.

#### The project

Shortly after the start of the second phase, in September-October 2005, the Program in Potosí, called DELAP,<sup>1</sup> tendered private sales consultants that should help bring about a united sales effort in the principal cash-crops in the agricultural cycle 2005-2006. The most important commercial agricultural products of the region are: beans, garlic, fruit (peaches, apples and grapes), vegetables and goat's milk. The experiences in the different crops, with regard to process and results, are fairly uniform. In this case we will take up garlic.

---

<sup>1</sup> *Desarrollo Económico Local Agropecuario en Potosí*, in English: Economic Agricultural Local Development in Potosí.

The garlic producers are concentrated in defined areas in the South of the Potosí District. The ones that work with DELAP – which is the majority – are organised in 6 associations with a total of 119 members. They have been receiving technical assistance in the production from the Programme during the last 3-4 years and also subsidies for their inputs and post-harvest equipment. The traditional way of selling their produce is typical for the whole region and all the cash-crops: They would sell individually to middle-men, who would either come to their farms to collect the produce or receive it in the local market town, paying cash. The middle-men would then transport the garlic to Santa Cruz and sell it or hand it over<sup>2</sup> to the big buyers, who in turn would export it to Brazil. Normally the farmer would grade his produce only in two categories: big and small.

The sales consultants were local agronomists that basically connected the producers with the national market and helped organise the sales, shipping and distribution of costs and revenues. Their Terms of Reference included assistance to the associations in the following main activities:

- Organise sales committees
- Determine the supply available
- Provide information on markets and prices
- Determine production and sales costs
- Make a sales plan for each and all of the associations, with destination and estimated sales price
- Determine beforehand the amount or percentage of the net earnings that would go to the association
- Administer the subsidies paid by DELAP
- Carry out the sales plan
- Carry out the distribution of earnings according to agreement
- Elaborate a report on the experience

DELAP was paying 50% of the cost of shipping materials (sacks, labels, etc.) and 50% of the administrative costs: Basically the cost of sending two representatives of the associations with each shipment – both as a direct subsidy to the individual producers. Furthermore, DELAP would pay the cost of the largest shipment planned; 50% hereof would be reimbursable and the rest would go to the associations after successful execution of the plan. Finally DELAP would pay 90% of the consultants' fees.

The numerical indicators were:

- 13 sales actions in the national market
- 230 tons of garlic sold, classified and packed

## Results

- 129 producers participated in the united sales effort<sup>3</sup>
- In the end, one single sales committee was formed with representatives from all the participating associations
- 15 lots were sold, with a total of 244 tons of classified and packed garlic. All the lots were sold to big buyers in Santa Cruz

---

<sup>2</sup> If the big buyer had forwarded the money for the middle-man's buying up in the local production areas.

<sup>3</sup> That is 10 more than the total number of members in the 6 associations. The reason is that new members entered during the project.

- Compared to the prices offered by the local middlemen, the sales brought in a net profit, after deducting all the sales costs at real prices,<sup>4</sup> of 0.0625 USD per kilo, or 62.50 USD per ton. Thus the united sales effort yielded a total profit of 15.250 USD<sup>5</sup> - compared to selling the traditional way
- The six associations benefited with a total capital infusion of 6.100 USD, of which 78% came from the transport subsidy and the rest were commissions paid by the members according to the agreement prior to the execution of the sales plan

The indications are that the sales projects will expand further in 2006 – 2007 both in terms of volume and numbers of producers participating.

## Perspectives

The most important achievement is that the participating producers have realised that their crop is worth more than the prices they have traditionally been forced to take in the local market. This will surely result in a more intensified effort on their behalf with regards to productivity and quality. In turn this will result in more specified demands and requirements on the technical assistance in order to increase the profitability in the production phase.<sup>6</sup> It will also increase their investment in more and better inputs to the production, thus creating a demand for adequate crop production credit.

Another important perspective is the recognition of the fact that a better market position is based on being able to offer commercially interesting volumes of produce, graded by quality. That is only possible through an associated sales effort. Thus the producers associations come to play their true role: To secure the highest possible price or income for their producers. The associations have been capitalised to the tune of 6.000 USD, thus enabling them to meet their operating costs during the year and finance, at least partially, the transport costs of next years shipments. Furthermore, a macro-association, uniting all the organised producers in the South, is in the making, which will further facilitate sales and administration. Finally, they might not even have to ship the produce, since various big buyers from Santa Cruz have expressed interest in coming to the area to fetch the garlic.

This experience also opens the perspective of contract farming, facilitated through the association(s), or the creation of a buying-up fund in order to be able to hold the produce and sell at the most opportune moment. For that credit is also required.

Based on this first experience, DELAP does not intend to tender sales consultants for next year's commercialisation. The producers' associations, hopefully the macro-association, will be asked to hire their own sales people and their technical assistance and DELAP will pay an 80% subsidy towards the cost. In many cases they are likely to hire the same sales consultants directly.

The subsidies to other than sales consultants' fees will disappear after next year. The subsidy to hire the consultants will gradually reduce from 90% this year to 80% next year and so forth. But it will not be less than 50%. In other words, it will not disappear, just as the subsidies to technical assistance in production will not disappear.

---

<sup>4</sup> In other words, not taking into account the subsidies

<sup>5</sup> An average profit of 118 USD per participant. Corresponding to almost two monthly minimum wages in Bolivia.

<sup>6</sup> The associations in question hire their own technical assistance with an 80% subsidy from DELAP.

With regard to subsidies and transport lay-outs, associations which have had high member contributions will be awarded, associations with low contributions will have to ask their members for more money in order to co-finance their sales plan.

## **Lessons Learned**

Several stakeholders have obtained important experiences. The consultants were local agronomists with little experience in sales. Now they have practical experience to build on. The association also had their first experience of how to organise joint sales and should be able to have more say in the process next year. Finally, valuable buyer contacts were made.

As seen from this case, being a cash-crop producer does not necessarily mean that one is market-oriented in the true meaning of the word. On the contrary, the production subsidies in the former phase of the Program resulted in more produce being dumped in the local market, thus depressing prices.

Furthermore, production subsidies often go equally to good and bad producers, motivating the last mentioned to produce a crop they would not otherwise have produced. Commercialisation subsidies tend to reward the good producers and motivate them to improve productivity and quality.

In other words, one could propose the hypothesis, that sales incentives make better economic sense than production subsidies.