

# An Anchor Firm Approach to Strengthening Value Chain Competitiveness

A Look at the PRODEL Program in Ecuador

*This “FIELD Brief” is part of a series produced by the Financial Integration, Economic Leveraging and Broad-Based Dissemination Leader with Associates (FIELD-Support LWA) program.*

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## Introduction

USAID’s Ecuador Local Economic Development program—or “Programa de Desarrollo Económico Local” (PRODEL), as it is known locally in Ecuador—was launched in November 2007 to identify and address major opportunities and constraints to growth in the market system, while ensuring sustainable impact at the household level. Awarded through the FIELD-Support LWA and led by ACDI/VOCA, PRODEL builds on the important role both private and public sector actors play in overcoming obstacles to sustained growth, such as producers’ physical isolation, their limited knowledge of end-market requirements, difficulty in accessing financing for working capital or investments, or challenges attaining economies of scale for profitable participation in value chains.

Key to PRODEL’s design is the recognition that lead firms or “**anchor firms**” in particular present significant capacity to multiply outputs and increase incomes for low-income populations. This is primarily due to three key factors: 1) large firms like anchor firms require a number of smaller firms and farmers to directly supply products as inputs into their production processes; 2) anchor firms can work well with a large number of service providers—few of which are vertically integrated—and their co-investments with these providers can accelerate the growth process in the value chains, which often provides increased market opportunities for ancillary MSEs; and anchor firms can offer differentiated products of greater quality and value, giving the market actors a competitive advantage, especially if they control the production process.

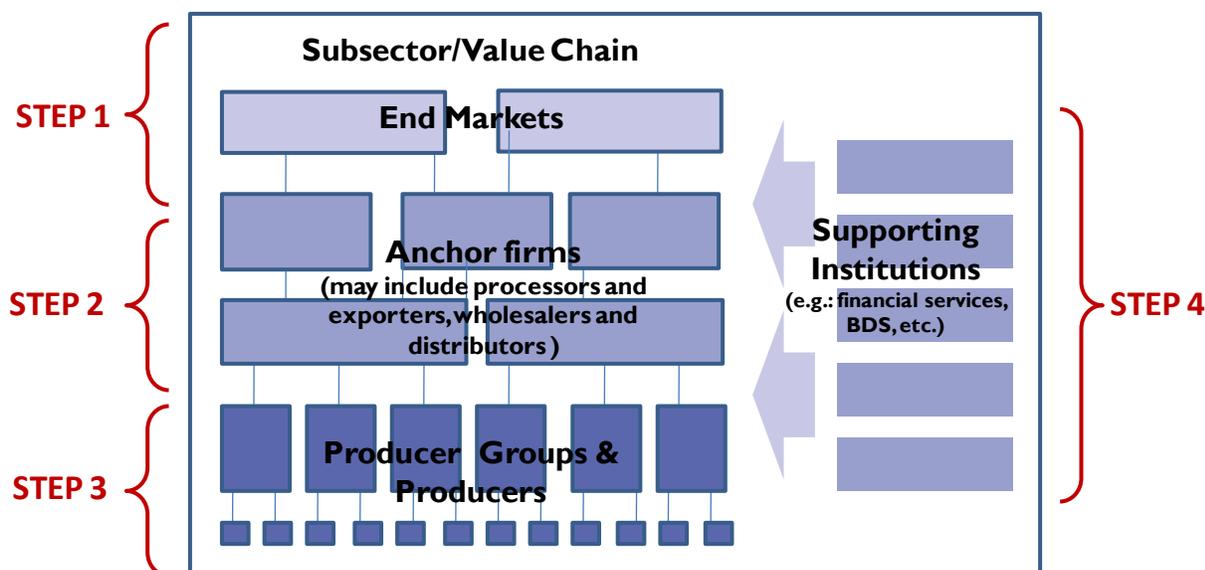
## The PRODEL Methodology

A primary focus of PRODEL is increasing value chain competitiveness which comes from the ability of all actors in a value chain—from input providers and farmer producers, to anchor firms, exporters, and retailers—to anticipate and meet buyer needs, take advantage of end-market opportunities, and adequately respond and adapt to changes in market demand. PRODEL centers its efforts on working with high potential anchor firms to engage input suppliers, farmers, exporters, and retailers in order to foster a stronger, more efficient and pro-poor value chain overall.



PRODEL's market-demand-driven approach is grounded in a four-step process that is designed to ensure the appropriate selection of strategic anchor firms, based on competitive value chains and subsectors, and then target those firms and their participating producers groups to strengthen vertical and horizontal linkages, while working with supporting institutions to enhance the availability of financial services to the value chains. Figure 1 presents a snapshot of this 4-step process, which is discussed in more detail below.

*Figure 1. PRODEL Methodology*



### **Step 1: Analyze Value Chains and Select Anchor Firms**

PRODEL works with USAID, its implementing partners and key local stakeholders such as the Ecuadorian government, provincial leaders, and private sector actors—to identify priority value chains based on predefined selection criteria including:

- their relative position in critical economic corridors that offer the potential for significant scaling up;
- the political will of local authorities who are supportive of PRODEL activities;
- the potential for achieving results and impact (for example, in terms of jobs created, hectares farmed, firms assisted, and other program targets); and
- proximity to border regions where farming communities are most at risk of engaging in illicit economic activity.

PRODEL selects anchor firms with the highest potential for benefiting producers or providers in the targeted municipalities, regardless of where the final end-market is.

PRODEL also seeks value chains in which there are lead firms who are interested in and/or who currently work with small scale suppliers and MSEs to support business activities. Each chain is then further analyzed through a **rapid sector assessment** of the requirements and trends of global end-markets to identify potential profitable channels. This includes identification of the key anchor firms, which may include processors, exporters, wholesalers, or distributors. In Ecuador, PRODEL has focused on cocoa, coffee, dairy, quinoa, processed fruits/vegetables, fish and seafood; as well as service providers to agribusinesses such as equipment manufacturers, agro-input suppliers, and consultancy firms.

Using available market information and data collected from key informant interviews, PRODEL selects anchor firms based on their role in established markets that have the potential for sustainable growth and broad economic impact. While the anchor firms with which PRODEL works are in various stages of development—some are more nascent firms, while others are more established—all have a network of supporting entities, such as smallholder farmers and MSE suppliers. PRODEL partners with firms with the highest potential for benefiting producers or providers in the targeted municipalities, regardless of whether the final market is domestic or international. Over the first three years of the program, PRODEL had worked with 44 anchor firms.

## **Step 2: Strengthen Anchor Firms**

PRODEL works with representatives from the selected anchor firm to conduct an in-depth business planning exercise which explores each firm’s technical, economic, and financial viability through an interactive dialogue pertaining to its marketing, sales, organizational, investment, and financial strategies.

PRODEL has developed a set of business strengthening tools specifically for small and medium enterprises called **the Program Planning Tools for Small Enterprises (4P+)**, which assists companies to identify their competitive advantage, develop strategies for market opportunities, and implement the value interventions and techniques necessary to ensure a steady supply of quality raw material. The process also provides anchor firms with new insights regarding end markets, how or where to obtain current market information, strategic and financial planning, and general capacity building in internal operational systems and protocols.

In some cases, PRODEL works with anchor firms to provide training in quality control, client-centric services, and compliance with domestic and internationally recognized standards and certifications, for example specifically in the coffee and cacao sectors. In addition to technical assistance and training programs, PRODEL’s **Economic Development Fund (EDF)** issues small business grants that can be used by anchor firms to upgrade production or aggregation infrastructure in order to improve quality and efficiency. In some instances, the PRODEL team supports the participation of anchor firms in trade fairs, helping them to establish contact with critical buyers in target end-markets and facilitating these linkages, while empowering them to manage their relationships with buyers going forward on their own.

Anchor firm representatives also take an active role in developing and implementing joint proposals for market access development. Some program activities have focused on the facilitation of joint initiatives which include taste testing events, joint stands at trade fairs, and technical assistance to anchor firms to grow their market and improve their businesses.

## **Step 3: Strengthen Producers and Producer Groups**

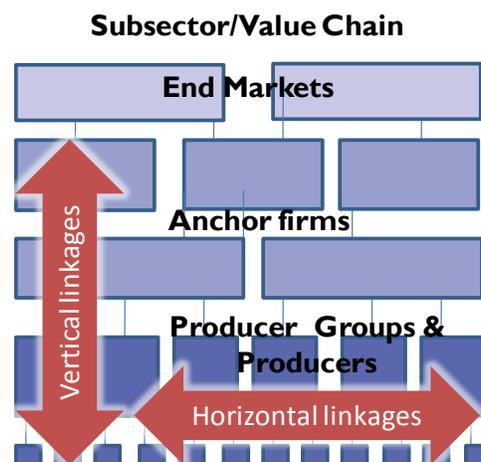
PRODEL recognizes that strengthening producer group associations and organizations is one way to accelerate employment creation and income generation for significant groups of people. While these producer groups exist in Ecuador, their lack of organization has been identified by PRODEL, anchor

### **Program Planning Tools for Small Enterprises (4P+)**

The 4P+ tool developed by PRODEL to assist SMEs identify business priorities. The tool includes four facilitated stages of development:

- **Stage 1:** Adoption of a Business Focus
- **Stage 2:** Adoption of a Business Management Model
- **Stage 3:** Management culture with decision-making based on results and indicators
- **Stage 4:** Management model based on continuous improvement in the areas of quality, competitiveness and the final market.

firms, and producer groups themselves as a key sector for improvement. Under the PRODEL approach, anchor firms lead the strengthening process, by guiding what are often informal groupings to coalesce and formalize into associations that can leverage economies of scale and enhance their capacity to take advantage of both **horizontal linkages** with other producer groups and **vertical linkages** with key anchor firms and input suppliers. For example, a large group of cacao producers in the Eloy Alfaro Canton of Esmeraldas Province linked to the Ecuacocoa anchor firm is not currently organized as a formal association. With PRODEL support, this group is assisted by the anchor firm to strengthen and formalize its legal status in Ecuador. In other contexts, anchor firms are focusing on providing trainings and capacity building in governance, leadership, accounting, human resources, and organizational management.



Another aspect of this step is working with anchor firms to help them strengthen **vertical linkages** and enhance the capacity, productivity, and quality of their suppliers, especially producer groups and suppliers of raw materials. One way that PRODEL does this is through **Farmer Field Schools (FFS)**, which are based on an empirical and interactive methodology that brings producers together to conduct research on their own farms in collaboration with a skilled facilitator (see textbox below). The PRODEL team monitors implementation and functioning of the FFS with each anchor firm and keeps track of how the improved management practices are being adopted in the field.

#### **Strengthening Vertical Linkages through Farmer Field Schools**

PRODEL Farmer Field Schools (FFS) are conducted as follows:

- Producers assess their own crops and identify specific agricultural and technical problems with alternative solutions.
- Each FFS identifies key factors that will help to increase productivity and enhance quality.
- The facilitator carries out a training cycle focusing on issues identified using exercises based on practical experimentation and leads discussions to reach results. The participants themselves identify best crop management practices for their crops and their farms.
- At the end of the FFS, the producers identify potential actions that can lead to the improvement of production and performance.
- The facilitator continually monitors the adoption of the practices generated by the FFS to ensure they are being implemented in the field.

To date, 22 PRODEL anchor firms have provided technical assistance to **6,037 producers**, through **374 FFS**. Through the FFS, the PRODEL local economic development advisors are able to monitor and ensure the nurseries provided by the program are being used appropriately and with adequate technical supervision.

Another key way that PRODEL supports producers and producer groups is through the establishment of **nurseries and demonstration** sites. Productivity has been identified by PRODEL as a weakness in the coffee, cacao, quinoa, and processed fruits and vegetables value chains. Working through anchor firms, PRODEL is encouraging multiplication of high-yield plants in nurseries throughout the northern and southern border regions of the country. Producers associated with anchor firms plant new plots

using strategically-located demonstration plots that can be used for producer orientation in the technical management of the crops. Producers are then introduced to this improved material through the Farmer Field Schools.

PRODEL also coordinates **certification and market specification** activities with Anchor Firms and producers, particularly in the coffee and grain value chains where market certification can earn producers a price premium. In some markets, especially when exporting to North America or Europe, certifications are considered an essential element for market entry and sales; therefore, PRODEL is designed to help anchor firms obtain certifications including Best Manufacturing Practices (BPM) and Hazard Analysis and Critical Control Points (HACCP). Over the last three years, PRODEL has supported anchor firms pursue certifications for organic products, through the Rainforest Alliance, and for specialty foods status, among others.



PRODEL facilitates workshops for producers focusing on best practices in grafting and pruning cacao plants for field technicians and community leaders associated with anchor firms and producer groups in Esmeraldas and El Oro Provinces.



In April 2011, a select group of coffee companies from Ecuador traveled to Houston, Texas to participate in the Specialty Coffee of America Association (SCAA) annual exposition and conference. With more than 8,000 coffee aficionados in attendance, the annual forum is one of the premier opportunities for coffee buyers and sellers from around the world to gather.

#### **Step 4: Foster the Provision of Financial Services**

Not a sequential step, but rather one that has been an ongoing element of PRODEL's implementation strategy is strengthening the provision of financial services as a cross cutting program element. To optimize sustainably of the value chain, PRODEL carries out activities at three levels:

- *Macro*: seeking to shape relevant national regulations and institutions;
- *Meso*: working with financial institutions to develop new products and services; and
- *Micro*: at the individual farm level through its financial literacy initiative.

At the meso level, for example, PRODEL's work has included working with financial institutions to develop and expand financial service products for PRODEL's anchor firm clients and associated stakeholders. PRODEL works directly with financial institutions to help them establish mechanisms and contacts that facilitate access to appropriate and specialized financial services for different value chain

stakeholders. In the Northern Sierra Region, for instance, PRODEL helped strengthen the credit review process of two cooperatives' for agricultural micro-loans. Through one-on-one technical assistance, practitioner training workshops and ongoing mentoring, the institutions have developed and are launching a financial plan to introduce two new products in each cooperative.

At the micro level, PRODEL works closely with producer groups through the PRODEL Financial Literacy Program which is being implemented in the field by trained local service providers. The Financial Literacy Program is aimed at improving farmers' capacity to manage their farms and facilitate direct and independent access to credit. The Program is also designed to link the producers to the formal financial system. As a result, direct relationships are forged between the producers that participate in the Financial Literacy Farmer Field Schools (FFS) and the financial institutions that are helping to carry out the Financial Services Value Chain Pilot Projects with PRODEL. To date, PRODEL has reached nearly 1,996 producers through the Financial Literacy FFS.



Many of the Financial Literacy FFS participants attend the workshops not only to gain access to credit, but also to learn about how they can improve the management of their farms. For instance, a number of women brought their sons and daughters to attend the workshops to learn new skills and information about farming as a business.

## Evidence-Based Program Design

Over the last four years, the PRODEL approach has been refined in response to on-the-ground experience and lessons learned through implementation. Presented below are some of the key takeaways:

### ***1. Lesson: Ensure joint participation in the design and formulation of a business plan***

The process of preparing a business plan for anchor firms must be participatory and comprehensive, with significant and active presence of value chain stakeholders from the anchor firm backwards to include producers and suppliers. This enables producers to actively participate during program planning and implementation, based on their own realities, needs, and commitments. PRODEL team members have worked to facilitate the business planning process but direct participation in this process of anchor firm representatives and producers helps to ensure a more sustainable process. This hands-on involvement in the business planning process has resulted in the production of a plan that anchor firms and producer groups can take to financial institutions for loans for their businesses and improved management skills that heighten competitiveness in the marketplace.

### ***2. Lesson: Achieve leverage through complementary alliances***

In order to achieve broader and more sustainable impact of the program, it is necessary to establish complementary alliances with locally-led projects and partners. An example of this is the Provincial Council of Sucumbios, whose specialized personnel can provide technical assistance and resources to firms to purchase tools, but cannot directly finance the activities of an anchor firm. PRODEL was able to step in, pinpointing financing mechanisms to help firms access markets and improve productivity. In another example, having improved the quality of its cacao, the San Carlos Association established a

number of favorable commercial relationships so that it was then able to choose among a number of options when ready to sell its products.

### ***3. Lesson: Anchor firms should have a staff counterpart***

Experience has shown that the best results have been accomplished with those anchor firms who have assigned a person to be directly responsible for the value chain strengthening activities to be implemented during PRODEL and beyond. These counterparts ensure stakeholder buy-in, facilitate administrative and logistics aspects of planned activities and help to establish sustainable value chain strengthening processes on behalf of anchor firms and producer groups in the future.

### ***4. Lesson: Facilitate the technical staff selection process within anchor firms and producer groups***

Given the employment crisis in Ecuador, many business owners have felt pressure to help relatives, friends, and/or acquaintances by finding them permanent, good paying employment. Unfortunately, these candidates are not always the most qualified. PRODEL guided anchor firm leaders to hire technical experts in the field using a merit-based system, and provided assistance in the process to select the most appropriate candidates. PRODEL's involvement in the staff selection process for anchor firms helped guarantee the involvement of qualified individuals, moreover, since the individuals selected in many cases, now function as full-time personnel at the anchor firms, this ensures sustainability for program and anchor firm objectives.

### ***5. Lesson: Integration of Program Activities within long-term Local Government programs***

During the first phase of PRODEL, significant investments were made and significant results were realized in the improvement of the business climate within municipalities for anchor firms that have the greatest potential to contribute to broader economic growth. However, there has been limited follow-up, especially in terms of continued investment and initiatives of local government stakeholders, resulting in a potential loss of sustainability. Integrating activities with long-term programs of local governments and working with municipal governments to adopt a more long range and strategic planning process that will remain in place beyond specific program funding and the term limits of elected officials can help strengthen sustainability of program activities.

### ***6. Lesson: Improved vertical linkages add value at both ends***

Improving linkages within anchor firm supply chains has led to increased trust and recognition of interdependence among producers, anchor firms, and intermediaries. As a result, a number of anchor firms have started offering financing and embedded services to their providers, leading to stronger, more capable businesses for both the producers and the anchor firms. For example, the COFINA anchor firm provides advance payments during the cacao harvest season to producer groups such as Eloy Alfaro, Aaprocash, and Fedecade to purchase raw materials needed for its semi-elaborated products. In addition, The Terrafertil anchor firm provides technical assistance and purchased storage and collection centers for producer groups linked to this company within the processed fruit value chain.

### ***7. Lesson: Market-oriented programming is important to sustainability***

A number of PRODEL-supported anchor firms have participated in development projects in the past. The general consensus among anchor firm CEOs is that these projects were well intentioned but

focused heavily on providing direct services and goods to farmers or private firms with limited co-investment or attention to the market system. Anchor firm representatives consistently pointed to PRODEL's market-driven approach and co-investment requirement as a more sustainable model. Direct contact with potential buyers and brokers in the international marketplace has been established as a core goal for the second phase of PRODEL. One example of this is PRODEL's efforts to increase productivity through mass production in nurseries which have come at an opportune time given high market prices for crops such as coffee and cacao. Given the seasonality of cacao and coffee, the collectively managed nurseries provided a new source of more stable income as the producer organizations could now sell their plants to third parties throughout the year. This adds an additional degree of sustainability to the initiative and has positioned PRODEL as a model for other institutions for these value chains.

#### ***8. Lesson: Value chain financing concepts must be shared with financial institutions***

Due to the lack of financial institutions willing to provide credit for agriculture in Ecuador, financing in this sector remains limited. Contributing factors include the asymmetry of information, the degree of informality in the agriculture sector, and the lack of low-risk financing products. The National Development Bank, an important stakeholder due to its extensive network of offices and experience in this sector, provided financing during the first phase of PRODEL. These partnerships were broadened in the second phase to include additional Ecuadorian public and private institutions that have the capacity to provide credit to the agricultural sector. Maintaining a focus on value chain financing for financial sector stakeholders through trainings, materials, and seminars has helped to increase loan numbers and amounts in the rural sector in Ecuador.

#### ***9. Lesson: Financial literacy programs are needed in Ecuador***

Farmers' limited financial literacy knowledge creates barriers to their ability to manage their finances and access credit. It prevents farmers from applying for loans and when they do, they tend to request excessive amounts that are beyond their capacity for repayment, thus worsening their situation. In turn, this keeps financial institutions from granting loans, further restricting farmer access to credit. In response to this, PRODEL spurred a financial literacy program for agricultural sector producers and stakeholders in an effort to increase access to financial products in Ecuador.

#### ***10. Lesson: The Farmer Field School methodology can add value as a training tool for producers and other stakeholders***

The PRODEL team provided technical assistance during PRODEL through the Farmer Field School methodology, which strengthened the linkages between suppliers and firms. The use of this methodology resulted in a high percentage of farmers that adopted new technologies to increase quality and productivity. The PRODEL team recommends utilizing this versatile Farmer Field School tool to train trainers in the area of value chain financing in addition to the areas of quality and productivity covered during the first phase.