

Case Study of Guatemalan Producer Groups in the Non-Traditional Export Sector

Report from the June-July 2007 fieldwork

While initially we were interested in cooperatives, the overarching theme was always to identify obstacles to smallholder farmers in the face of globalization as well as considering producer groups and institutional policies that could help smallholders overcome these obstacles. Specifically, we wanted to investigate institutional innovations in agricultural cooperatives that improved bargaining power, social & financial programming and leadership structure within the cooperative. Such institutional innovations within cooperatives could help smallholder farmers overcome obstacles to being competitive in the international market.

However, several interviews have confirmed that coops may not be the only producer group of interest—we may also want to consider asociaciones civiles (AC). Sociedades anonimas (SA) are another organization we may want to examine; however, in many instances an SA is synonymous with “agroexporter.” SAs are not producer groups of small farmers, rather they are big businesses that contract with smaller producer groups such as cooperatives and ACs. Having said that, Fundacion AGIL is working to form an alianza of 70-90 producer groups (both ACs and cooperatives); the goal is that through the alianza, the producer groups will eventually be able to directly export. The first floor producer groups (cooperatives and ACs) and the second floor producer groups (alianzas or what I previously called SAs) serve a similar purpose for smallholder farmers—they help get product to the international market. However, there are some key differences between coops, ACs and alianzas regarding origins, legal structure & taxes, access to credit, and, of course, how their production chains are structured.

PRODUCTION/SUPPLY CHAINS

Thus far we have identified five principle production/supply chains for non-traditional exports (NTXs); I have mostly focused on minivegetales. These are (in ‘rough’ order of magnitude of product moved):

1. Producer → Asociacion Civil → Exporter → US/European Markets;
2. Producer → Cooperative → Exporter or direct → US/European Markets;
3. Producer → Coyote (Intermediario) → Exporter → US/European Markets;
4. Producer → Producer Group → Alianza → Exporter or direct → US/European Markets .
5. Producer → COCODE/ECA → Exporter → US/European Markets

An important point is that a single producer may be involved in more than one of these chains. In fact, many producers will sell through their producer group (asociacion civil/coop/COCODE/ECA) and also to the coyote.

Here is an example of how a producer may be in more than one chain:
 Producer A → sells 60% through the asociacion civil → exporter → foreign market
 Producer A → sells other 40% to coyote → exporter → foreign market

A new phenomena is for an alianza of producer groups to sell part of it's product directly to the foreign market. For example, an alianza may have farmers producing broccoli, corn, carrots and snow peas. The alianza may sell all of its product to the local market and the exporter except for the snow peas; the alianza may export their snow peas directly:

Producer A → sells 80% through the asociacion civil (1) → sells 50% to exporter → foreign market
(2) → sells 30% directly to foreign market

Producer A → sells other 20% to coyote → other middleman → exporter → foreign market

ORIGINS

Cooperatives: Cooperatives grew significantly in the 1970s and in the early 1980s but have since died down. Most all of the cooperatives I interviewed started shortly after 1978 when official legislation created the legal entity called a cooperative. Today, many cooperatives function in name only.

Asociaciones Civiles: ACs (non-profit organizations) have been around a long time. However, before 1998 it was more difficult to register a new AC because all paperwork was processed in Guatemala City. Therefore, if a community group wanted to start any type of non-profit then they had to go to Guatemala City for registration. Furthermore, registration took a very long time, according to some sources, years. New legislation in 1998 made it significantly easier to become an AC. Groups seeking to become a non-profit can now register in their municipality. This reduces registration costs as well as speeding up the registration process.

I understand at least three reasons why producers would decide to form an AC rather than a cooperative:

1. A community may have already established an AC for another type of community service. Hence, it was easy to add a producer group branch to the pre-existing AC.
2. The farmers determined that they wanted to form a producer group in order to obtain a contract with an agroexporter. The farmers, having very little knowledge about how to form a producer group, went to their local leaders or mayors. Since the municipal governments were used to processing requests for ACs they may have directed the group of farmers to set-up an AC rather than a cooperative.
3. The agroexporters wanted to organize farmers into producer groups so that they could reduce transaction costs and obtain the large quantities necessary for export. Perhaps we should be looking at the incentives facing the agroexporters to encourage the formation of ACs versus cooperatives.

In my interviews I heard threads of the stories above; however, I heard no responses to my questions on “why form/join an association civil instead of a cooperative? (or vice versa). The farmers I talked to could not distinguish the benefits of an AC versus a cooperative; however, they could compare the different agroexporters on a variety of characteristics. The most important things to the farmer when comparing different agroexporters was access to credit in the form of seeds, fertilizers etc, price and reliability

of payment. Farmers also mentioned benefits such as an ag business coming to pick-up their product or classifying the product in front of the farmers versus at the ag business plant.

Alianzas as Sociedades Anonimas: These alianzas are a new organization innovation in the sectors of ag NTXs. One USAID consultant, Jorge Mendez, is working with 70-90 producer groups to form a second level alianza. However, I have heard of other producer groups starting to form alianzas. These other alianzas also have the goal of starting up their own SA so that they can export directly. The main reason I see that alianzas want to become SAs is so that they can distribute dividends to their members. There may also be an incentive within the second-level leadership to encourage the formation of an SA rather than remaining an association or cooperative. From what I have learned, leadership with-in an SA would make considerably more money than leadership within a second level AC that exported. This potential difference in leadership compensation may provide strong incentives to the leadership in the alianza to eventually transform itself into an SA.

LEGAL STANDING & TAXES

Cooperatives: Coops are legal entities due to legislation in 1978; coops require a minimum of 20 members. As far as taxes it depends somewhat on whether the coop is not for profit or for profit—according to the IJ both types of coops exist. It is also important to distinguish between the different types of taxes. For example, I learned of the following taxes:

1. **IVA** (impuesto de valor agregado) 12%
2. **Impuesto de la renta** (income tax) % depends on income
3. **Impuesto Extraordinario y Temporal**, also called IETAP—I think this is a new tax that coops must pay; the IJ was still unclear on this point
4. **Impuesto Timbres**, I think this is a tax that must be paid for different types of licenses

As far as I understand, cooperatives and ACs pay all of the above taxes except that they do not pay the impuesto de la renta. This is because the cooperatives and the ACs are not actually selling anything to the agroexporters. Instead these producer groups are just facilitating the sale between the individual producers and the agroexporters. This is why members of producer groups are required to pay a 5% income tax on all their sales through the producer group—the individual producers are actually the ones making the sales so they are the ones that must pay the tax. In my interviews I believe that this 5% income tax was called a “contribuyente”.

However, I should also note that cooperatives (& ACs) may buy product from non-members and then sell this to an agroexporter. A cooperative must pay an income tax on these sales because the cooperative owns the product they purchase from the non-member. That is, the cooperative is no longer facilitating a transaction; they are actually making the sale and so are responsible for paying an income tax.

Asociaciones Civiles: These are legal entities that fall in the category of non-profits. Their tax structure is very similar, if not identical, to that of the cooperatives.

Sociedades Anonimas: These are legally registered businesses that can be found in the “registromercantil”. Since they are a for profit organization they are required to pay taxes on all income.

ACCESS TO CREDIT

Cooperatives: This depends largely on the coop, but in general it appears farmers can often get advances from their coop. The coops get their funds from various sources including FENACOAC, international donors, and, most commonly, agroexporters. Agroexporters often contract with producer groups. As part of the contract, the agroexporter will sometimes require that the producers use their seeds and sometimes other products such as fertilizers and pesticides. This type of contract offers advantages to both parties. Producers receive credit in the form of “insumos” and the agroexporters acquire more control over the production chain.

Cooperative members might also be able to access credit and ag insurance from DACREDITO although the cooperatives I met with did not have much faith in the program. They had heard bad things about the program—for example, many complained the credit came after it was time to plant.

Asociaciones Civiles: The ACs work almost identically to the cooperatives described above; however, ACs don’t have access to credit from FENACOAC.

Alianzas as Sociedades Anonimas: Gathering information from our different interviews, it seems that lack of credit is an obstacle for an alianza that wants to form a sociedad anonima. Why? For at least two reasons, sociedades anonimas export directly so they can’t obtain credit in the form of insumos for planting from an exporter. In addition, they don’t have the funds to invest in the start-up equipment necessary to export. For example, they don’t have funds to invest in packaging facilities or food safety laboratories.