

SYNTHESIS OF THE THIRD VCRD DEBATE CYCLE (APRIL 2005)

The main area of debate was 'Donor interventions in value chain development'

After discussing issues of 'how to analyse value chains' in the first VCRD cycle, and 'how to identify interventions and leverage points' during the second cycle, we focused on 'donor interventions in value chains' during the third VCRD debate cycle.

The initial statement quoted a **hypothesis**: (*Donor*) *interventions are supposed to be demand driven*; and a set of **questions** around the issue of demand driven donor interventions.

Chapter 1: Demand driven (donor) interventions. Donor interventions are supposed to respond to a demand. Demands are raised by different kinds of actors.

Chapter 2: Qualified demands & needs. Demands must be developed, based on real needs.

Chapter 3: Types of interventions. It is the perspective and the understanding of the role of a donor that is creating different intervention patterns.

Chapter 4: Competition neutral interventions. Competition neutrality is never fully achieved but it can be maximized.

Chapter 5: Are donors fit (and fast) enough for VC interventions? Donors do not have to behave like entrepreneurs, but adapt entrepreneurial thinking when intervening in VCs.

Chapter 6: VC and poverty reduction. The poorest people are not the entrepreneurs we are looking for in VC development, nevertheless a donor needs to diversify its interventions and try to include all actors.

Chapter 1: Demand driven (donor) interventions

(Donor) interventions are supposed to *respond* to a demand. This demand can exist within the VC and/or the intervention chain and/or other organisations that advocate for VC development. Following brief description helps us separating the 'demanders':

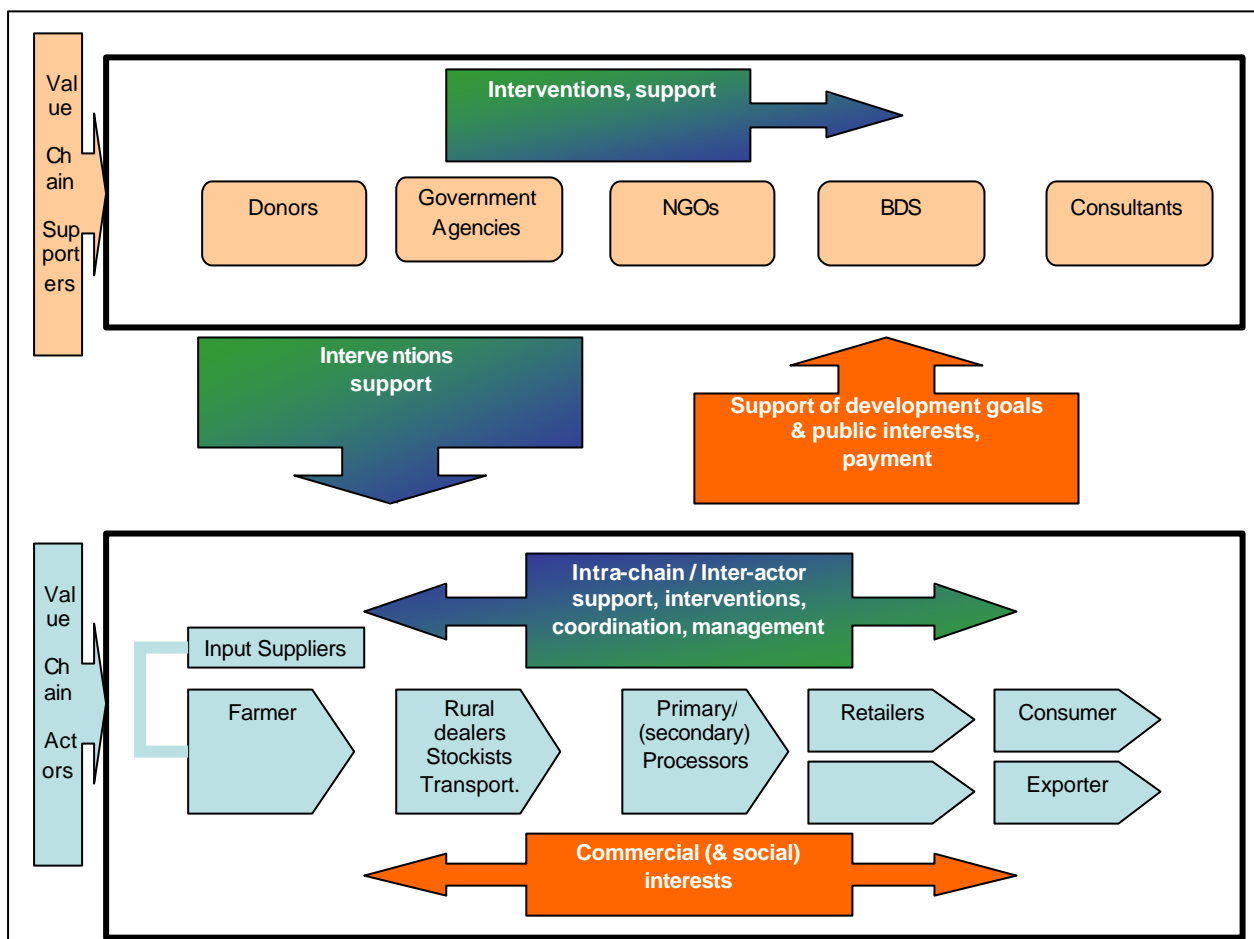
- VC actors (producers, traders, processors, consumers)
- Intervention chain actors (state agencies, NGOs, consultants, service providers)
- VC advocates or VC facilitators that are interested in fostering VC development (social entrepreneurs, incubation centers, farmer associations, inter-professional groups)

Interventions within the value chain

Investments in VC coordination, trust building processes, capacity building, quality improvement etc. are common 'interventions' **between VC actors**. Improving processes and the functioning of the chain; increase or secure employment and income; increase or secure barriers to entry; and constant VC improvement are the reasons for internal VC management.

The intervention chain

From the perspective of a donor, an intervention is a product, good or service that has its own 'chain'. Various actors, interests, motivations, capacities meet in 'intervention chains' between donors, NGOs, consultants, service providers and others. The intervention chain is supposed to add value to the donors' interventions and contribute to the donors' goals and objectives.



Graph 1: Visualisation of VC and intervention chain

Interactions between intervention chains and VCs

Interactions between intervention chains and VCs are investments in money, time, material, knowledge and know-how from donors and other actors within the intervention chain guided towards VC actors. The interest of donors is mainly the contribution to its development goals (poverty alleviation, for example).

We distinguish between the role of a donor, who is investing into interventions in a value chain, and the role of the supplier or (re-)seller of an intervention, who is paid by a donor and supplies to a consumer, who is 'paying' the donor in kind (effort to achieve the donors and his own goal).

With cost sharing practices, intervention chain actors expect also economic return from VC actors; especially the third group of 'demanders': VC advocates (social organisations or private business incubators).

Chapter 2: Qualified demands & needs

The thesis '(donor) interventions are supposed to *respond* to a demand' is built on the existence of qualified demands. In practice we often find a lack of qualified demands.

- Demands are not known; not expressed or not developed. Lack of information, knowledge or capacity prevents from articulating demands.
- Demands do not match needs. Demands can be developed or stated in order to gain access to donor interventions; this means that demands are orientation on existing private or public offers (farmer groups are very smart to profile their demands according to what they know the donor community finances).

A **qualified demand** is a commitment by the incumbent; a clearly-stated plan for improvement, and follows operative rules regulating the incumbents' relationship with the enterprise. Donors should be concerned about a real demand and the capability and willingness of the client to pay, not or not fully in cash, but with his effort to contribute to achieving the donors' goal.

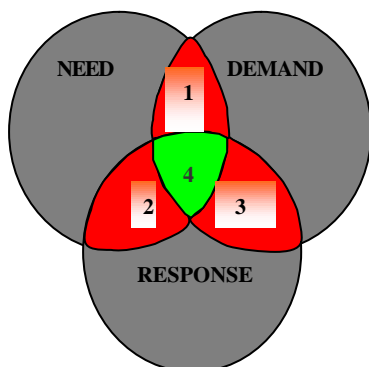
The donor should formulate his intervention based on a verified need and a real demand; this is contrary to a profit oriented business, that does not care so much about a need, but about the demand and the willingness to pay.

Demands and reaction in the Tanzania case

- a) Farmers don't demand micro-irrigation, simply because they don't know about it.
Interventions: Donors cannot react to a demand. Donors can fund programs for the experimentation to happen, so that farmers know what they can demand.
- b) The markets don't demand the technology.
Interventions: Donors cannot react to a demand. They can provide resources and expertise, so that the input-potentials and the follow-up marketing potentials are well understood, which will allow getting a better grasp of the business-hypotheses.
- c) Entrepreneurs demand resources to develop the technology, acquire the skills to install it and service it, and establish distribution channels.
Interventions: Donors can react to this demand by providing the resources for doing the business-oriented R&D by entrepreneurs, and by envisaging Public Private Partnerships with them.
- d) NGOs could demand for funding their efforts with micro-irrigation for food-security.
Interventions: Because micro-irrigation is expected to be a commercially viable venture, the NGO should only be supported if it is restricting itself to the R&D phase. Otherwise the donor risks distorting the emergence of a viable service market.

The relations of need – demand – response

NEED/DEMAND (1): A clearly identified need is formulated in a demand. Strong ownership evolves. There is no response from the public or private sector for such demands even though this is what the value chain actors need and demand.



NEED/RESPONSE (2): This situation looks ideal from a donor/implementing agency perspective. It is very "expertise" and "exogenous" oriented: those people do not really know what they need, but we (donors/agencies) identified what their needs are, and we provide the right response. Most probably ends up in a one off action with zero ownership.

DEMAND/RESPONSE (3): Sounds like the ideal case: actors of a value chain articulate a demand and find the response they are looking for. But, even a good match between demand and response can lead to very little effect on the VC, when the demand is not based on a real need.

NEED/DEMAND/RESPONSE (4): The ideal case for interventions. From a clearly identified need evolves a qualified demand that meets a response from a donor, government or private entrepreneurs. In a practical way this means: Bring together the interested VC actors and in a participative manner discuss strengths, weaknesses, opportunities and threads of the VC. Once the actors have expressed their needs, it is articulated in a common demand and then the stakeholders of the chain can look for the appropriate response they need.

Changing demands

VC actors in complex and dynamic markets face changing challenges – consequently their demands can change in short time periods. From an example of the sesame subsector in Nicaragua we learned that in only a few months new market opportunities aroused, new actors became prominent and new alliances were built. A value chain development strategy must be responsive to changing demands.

Chapter 3: Types of interventions

We discussed different strategic approaches for donor interventions in VCs. Four different ‘typologies’ or ‘types’ of interventions are described: 1. by governance structures; 2. for different demand situations (see in *Chapter 2: Qualified demands & needs*; The Tanzania Case); 3. PADERS steps of an intervention process; and 4. Rural Venture Capital Fund.

1. Donor interventions depending on VC governance structures

Governance structure	Intervention possibilities
<p><i>VC led by large national firms / global value chains</i></p> <p>Large firms and multinationals take the lead role and set-up up-stream linkages, perhaps private certification and branding schemes; they organise for up-stream extension services and quality assurance schemes; sometimes they are interested in joining forces with donor organisations in countries, in which they see a value-added in doing so.</p>	<p>Public-private-partnership projects with lead firms. Financial / technical assistance; shared investments & risks for public interest purposes.</p> <p>Advocacy and lobbying for corporate social responsibility and accountability.</p>
<p><i>VC led by medium (to large) domestic firms</i></p> <p>medium-scale firms are interested to improve performance / profitability /quality assurance along the chain by (i) improving up-stream and down-stream flows of products and (ii) framework conditions under which they operate.</p>	<p>Facilitation and moderation between actors; fostering the network and the VC actors-relations.</p> <p>Public-private partnership with key actors (shared investments & risks, guaranties for credits)</p> <p>Foster qualified demands (need-demand-response)</p> <p>Purely business-oriented and demand driven interventions</p> <p>Strengthening lobbying power</p> <p>Support or lobbying for improved framework conditions</p> <p>R&D fund for business ideas (new products, new technologies, new market)</p>

<p>Small firms and farms intending to join an existing VC or initiate VCD</p> <p>In contrast to the two preceding examples, there is no bigger player involved who is interested in improving up-stream VCD and thus PULLS VCD.</p>	<p>Identify change agents / innovative / entrepreneurial small scale rural producers who are capable to PUSH VCD.</p> <p>Assist the emergence of sustainable VC structures.</p> <p>R & D funds for action research on VC development or initiation possibilities (business plan).</p> <p>Capacity building for engaging in existing VCs on favourable terms.</p>
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2. See in Chapter 2: Qualified demands & needs; The Tanzania Case

3. PADERS’ steps of the intervention process

(please find the detailed guidelines on the debate platform)

Steps	Basic Guidelines
<p>1. ‘To want’; <i>Preparation and organization of the process</i></p>	<p>Institutional Mapping</p> <p>Review of existing information (baseline)</p> <p>Workshop: Agreement and prioritise of the chain.</p>
<p>2. ‘To know’; <i>Diagnosis of VC</i></p>	<p>Workshop: Diagnosis of the productive system.</p> <p>Elaboration of VC surveys</p> <p>Systematization of VC information</p>
<p>3. ‘To be able’; <i>Formulation of shared responsibility agenda’</i></p>	<p>Workshop: Promotion of economic VC strategy</p> <p>Workshop: Formulation of shared responsibility agenda</p> <p>Elaboration of shared responsibility agenda</p>

4. RUVENT / Rural Venture Fund

An idea of a hands-on approach for supporting commercial viable VCs

A Rural Venture Fund - RUVENT - is privately operated enterprise that knows how to explore, nurture and bring rural enterprises to success. It provides capital for doing business R&D to the point where business plans can be submitted to normal credit operators. RUVENT also provides or organizes the technical assistance to explore and develop business ideas.

RUVENT remains shareholder of the venture until it either fails or succeeds. When successful, RUVENT holds part of the ownership together with the operator of the new successful venture (ie. a group of farmers, traders, exporters, etc) and is able to profit from it or sell its shares.

Of course RUVENT also does a lot of VC explorations and organizes and facilitates a lot of networking, for identifying new business opportunities and diversifying their risks. RUVENT will also be hired by VC-actors to continue to facilitate the smooth running of a network for all the VC-actors. Or maybe RUVENT is even a shareholder in the success of a whole integrated VC.

Conclusion: There are different angles and perspectives for VC interventions, as exist different contexts and understandings of VC development. We should not try to look for the golden bullet that kills all VC development constraints, because it does probably not exist. RUVENT has certainly its justification and we should look for situations where RUVENT might be useful, as in other situations other intervention' types' are useful.

Chapter 4: Competition neutral interventions

From an economic perspective, donors should only intervene in VCs when there is some sort of 'market failure' – a lack of finance or information for example, and when the benefits of interventions to correct this market failure exceed the costs. But also good working VCs with high (potential) impact for rural development are a good target for donor interventions. Such chains contain important social capital, a resource that can easily be tapped to generate further development-relevant VC innovations.

The idea of competition neutral interventions is very idealistic and can not be achieved. A company investing in a public-private-partnership has a competitive disadvantage, because it had to invest some of its own resources into something that becomes available to its competitors. However, this is offset by the fact that of course the company develops a lot of skills ('doledge'), expands its personal contacts, and generally becomes better known.

When no market exists, or an existing market is monopolised by a single firm, creation or distortion can even be a goal of a donor intervention. It is possible to design public support for competence-building to the private sector in a way that enhances fair competition.

Conclusion: Competition neutrality is never fully achieved but it can be maximized.

Chapter 5: Are donors fit (and fast) enough for VC interventions?

Donors are not fit enough, because...	Donor interventions go beyond the mere supply of funds...
<p>With VCs we are operating in highly dynamic situations; entrepreneurs with business ideas need to move fast and in a flexible manner. Donor procedures or mechanisms are not adapted to such needs.</p> <p>Raising funds for promising new ventures does not fit into programmes or objectives of implementing agencies.</p> <p>Donors should not behave like entrepreneurs! Most of their interests or goals do not have entrepreneurial fundamentals (i.e. generation of own profit), but are linked with objectives like pro-poor growth, or poverty reduction strategies.</p>	<p>The nature of donor interventions goes beyond the mere supply of funds to a value chain. For example, the role of facilitator embraces several tasks such as capacity building, technical support and advice, inserting VC development in the local political agenda, mobilise guarantees, accompany the entrepreneurs in being creditworthy, etc. Some of these tasks require more time than others.</p> <p>An innovative idea that raises an urgent need of funds should not prevent to make a thorough analysis of the profitability of such a business. Using public money, donors cannot afford to spread it around without limited risks</p>

Ways for fostering donor interventions for VC development

Donors should diversify their portfolio of actions for supporting VCs. Their financial products should be spread from R&D-funds to long term investments in capacity building Foster farmer groups to lobby and advocate the donors might lead to some more flexibility. Engage local (private sector) facilitators and capacity builders.

Donors should not act like entrepreneurs, but adapt entrepreneurial thinking when supporting VC development.

If the main reasons or an important reason is the lack of trust between the VC actors, an inter-professional organisation could be a solution (vs. an external facilitation). These round-tables can be initiated by donors or NGOs. But: Ownership is often not assumed by VC actors. The initiative fails to continue once the outside actor removes its organisational and financial support.

Conclusion: Donors should adapt flexible mechanisms when interacting in market based businesses, i.e. in value chain approaches. Flexible mechanisms include a diversified portfolio of interactions that allow quick actions (i.e. funding R&D) and long-term engagement (i.e. capacity building). But donors do not act like entrepreneurs; they have other roles than just supplying funds for VCs or R&D projects.

Chapter 6: VC and poverty reduction

Value chain or market approaches lead to exclusion: whenever we mention VALUE or PRICE there will be a group that will not be able to afford it. A functioning VC is a source of income and employment for entrepreneurs and innovative and coordinative VC actors, but also for in-directly involved people who gain access to employment, income, infrastructure, markets and information. This means, donors should not only diversify their portfolio of interventions and intervene through effective service providers, but they should also diversify their clients.

Rather than leaving everything to free market forces, donors can have a coaching role in order to strengthen the rural poor as an economic stakeholder in a value chain – by forming groups, associations and cooperatives.

Conclusions: The poorest or most marginalized people are not the engine of VC development. The VC development is usually done through entrepreneurs, business companies or associations. Therefore, donors should concentrate on most promising (non-poor) change agents for VC development.

Value chain approaches and other market oriented approaches lead to different kinds of EXCLUSIONS (from production, market access, and consumption). Donors should care about INCLUSION of the most marginalized people. Donors should therefore diversify their portfolio of clients and not only interact with innovative change agents, but also support the poorest towards inclusion in a VC.

Ongoing discussion: VCRD only for poor people with an enterprising mind. Not all of us agree on that statement.

VCRD is also for the poor non-entrepreneurial people: out grower schemes - it is more important being a good producer (quality and quantity) than being entrepreneurial.

VC approaches (and other market oriented approaches) lead to a different kind of INCLUSION.