

SYNTHESIS OF THE FOURTH VCRD DEBATE CYCLE (JUNE 2005)

The main area of debate was 'Value chains and poverty reduction'

While the first two cycles focused on specific 'how to do – questions' ('how to analyse value chains'; and 'how to identify interventions and leverage points') and the third cycle had a specific interest in actions of development agencies ('donor interventions in value chains'), this fourth debate cycle concentrated on a broader issue: value chains in the poverty alleviation context. This cycle was initiated with a set of complementary and sometimes contradicting hypotheses. This paper is based on these hypotheses and intends to synthesise all contributions made.

Hypothesis 1: Change agents. Donors should concentrate on most promising change agents for VC development. This means, start with the 'winning horse', collaborate with the private sector and ensure pro-poor mechanisms.

Hypothesis 2: Inclusion. Market approaches often lead to different kinds of exclusions. Donors should care about the inclusion of most marginalized people (market standards must be achieved by the poorest producers).

Hypothesis 3: Improved market access. All production (excluding subsistence farming) is directed to markets. Different markets have different needs; VC actors must be prepared to meet these demands.

Hypothesis 4: Pro-poor donor interventions. Donor interventions in VCs should enhance a pro-poor focus in market oriented businesses. A real cooperation with the private sector seems to be most promising for this aim.

Hypothesis 5: Leverage. Donors should concentrate on projects with biggest leverage effects based on cost / benefit analyses, 'likelihood of success' and sustainability of the effort.

Hypothesis 6: VC Governance. Vertical cooperation along VCs highly depends on trust among VC operators, common visions and information sharing as key success factors for efficient formal / informal VC relationships.

Hypothesis 7: Information. (a) Access to relevant information and (b) functioning two-way (up-stream / downstream) information flows are main factors for functioning VCs.

Hypothesis 8: VCRD and project cycles. Project periods are often too short for effective VC support. Donors should change their result-based project-cycle-thinking and search for more adequate investment mechanisms.

Information Box: Rural Business Incubation Tank. A draft from the VCRD discussion.

This synthesis is structured around the different hypotheses that were raised and discussed during the debate cycle in June 2005. **Resuming in a few words the main insights:** • the importance of local markets; donors do not (know how to) react like entrepreneurs; • real collaboration with the private sector is needed; • transparency, access to information, trust and leverage effects are important for VC development; • and projects should start with the 'winning horse'.

1. Hypothesis: Change agents	Main points from the debate:
<p>The poorest or most marginalized people are not the engine of VC development. 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. With other words: VCRD only for poor people with an enterprising mind.</p>	<p>We (donors, NGOs, consultants) need to work on our skills in order to understand how to intervene in VCs for the benefit of the enterprising poor.</p> <p>Support rural business development services rendered by public or private providers. For example, rural business incubation centers could seek out ideas and support innovative ideas; they provide a space and meeting point for rural entrepreneurs (<i>please find more information in the information box at the end of this paper</i>).</p> <p>Start intervening with the winning horse, or the one most likely to win, the change effects will follow.</p> <p>Work with private entrepreneurs: Donors could leave the VC development to private entrepreneurs. If there is a public interest for a functioning VC (i.e. with a pro-poor focus), so the public entity should contract a private entrepreneur who is familiar with this business situation. Donors can be part of the board and bring ideas on how to ensure their goals, but let the 'business' run the show.</p> <p>Donors should explore new and more effective ways of public-private development partnerships.</p>
<p>Conclusions by the moderator:</p> <p><i>We agree with hypothesis 1 (Change agents). But we need to consider the comments and remarks, as well as hypothesis 2 (Inclusion).</i></p>	

<p>2. Hypothesis: Inclusion</p> <p>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.</p>	<p>Main points from the debate:</p> <p><i>No specific comments or remarks were made on this thesis; please find in '4. Hypothesis: Pro-poor donor interventions' some conclusions about how to support the idea of 'inclusion'.</i></p> <p>Remarks from the moderator:</p> <p><i>We agree on this statement.</i></p>
<p>3. Hypothesis: Improved market access</p> <p>VC approaches are not very promising in contexts where the market access of resource poor farmers should be improved, unless positive spill-over effects are obtained, indirectly. These farmers, who tend to be excluded from such market-oriented approaches might rather need interventions that tend to improve the access to production factors (access to land, water, knowledge, food etc.) that later are essential to foster market access.</p> <p>Conclusions by the moderator:</p> <p><i>The hypothesis has to be reformulated: VC approaches are also promising in contexts where the market access of resource poor farmers should be improved. As all production (excluding subsistence farming) is directed to markets. Donors can support farmers to produce different supplies for different markets. Farmers can therefore benefit from improved access to latent and emerging (local and regional) markets.</i></p>	<p>Main points from the debate:</p> <p>We (donors, NGOs, private entrepreneurs) can intervene in value chains in such a way that opens the access to VCs for the poor. However these are not the poorest of the poor, but poor people with some marketable assets (i.e. land, skills, local knowledge).</p> <p>Apart from direct VC interventions, donors can enhance VC surroundings that foster indirectly the participation of excluded farmers: introduce savings and credit groups to create additional assets; or facilitate market research for the company and assist with organic certification, this could open an entry point for new farmers.</p> <p>The perspective that all production (excluding subsistence farming) is directed to a market is very important. Different markets demand different supplies. Donors can support farmers to meet these demands. Without losing the market-oriented perspective, some – especially resource poor – farmers need specific interventions for improving their production factors (land management, skills, credits, etc.); with other words: improving production.</p> <p>Due to changing agri-food markets (growing market shares by trans-national supermarkets) producers will have to respond to much higher quality requirements for local and regional markets too, not only for high-quality international markets. This can be an opportunity for small farmers, but they most likely will need some concrete support from development agencies. The aim must be business oriented: Supermarkets do not need public money; they do not care about business centers. But they like good products at reasonable prices from local and regional suppliers.</p>
<p>4. Hypothesis: Pro-poor donor interventions</p> <p>Donor interventions in VCs should enhance the pro-poor focus in market-oriented businesses. Donors should concentrate on including mechanisms that foster the profit of the poorest in VCs – like fair-trade schemes, labour standards, corporate social responsibility, etc.</p> <p>Conclusions by the moderator:</p> <p><i>There seems a general agreement that Donor interventions in VCs should enhance the pro-poor focus in market-oriented businesses. This focus has to consider business relevant issues and should foster win-win situations. Enhanced and creative cooperation with the private sector is needed. Transparency issues and information systems are two appropriate fields for donor initiatives.</i></p>	<p>Main points from the debate:</p> <p>Donors have a role to play for supporting pro-poor mechanisms. This can be done through supporting farmers directly (organization, collection systems) or advocacy (for a fair pricing system that leads to a win-win situation) or through supporting an bigger company (manufacturer; exporter; outgrower-schemes).</p> <p>Donors should not interfere in viable businesses. For example, the donors do not need to support the farmers to get organised. This could be done by a company: A big trader or buyer interested in better quality and quantities could help to organise the farmers (as embedded services). Donors could therefore support the companies (financial and technical assistance) so they organise the farmers.</p> <p>The principles of many production, trade or social systems (i.e. organic farming, fair trade, CSR, etc.) are on achieving win-win situations (on economic, ecological and social issues), creating lasting relations and with 'reasonable gains for all sides'. But, enforce improved labour conditions or CSR can create undesired or unsustainable solutions; it can even put people out of business. Donors should help to establish a fruitful interaction and a balanced negotiation between the partners.</p> <p>Donors should no longer 'condemn' the private sector, but envisage new and creative partnerships, and create room for corporation:</p>

	<p>let both do what they are best at, but with combined efforts.</p> <p>Donors can support to find a fair balance between economic sustainable business and fair working conditions. This includes not only price or salaries, but also terms of payment (direct, in cash, in kind, guarantees), access to inputs (equipment, seeds, etc.), access to credits (lower costs, in kind), and access to expertise (applicability with other crops) that make win-win situations.</p> <p>An important role of the donor is to create transparency; i.e. to make the entire process clear to all partners and facilitate the agreement process. A powerful donor intervention could be the set up of a VC information system - that guarantees transparency along the chain - and ensure access for all participants to the information system.</p>
<p>5. Hypothesis: Leverage</p>	<p>Main points from the debate:</p>
<p><i>(previous title: Bigger groups, greater impact)</i></p> <p>If there is the choice between (a) VC development for organic or fair trade markets abroad with the potential of relatively large benefits for relatively few poor people and (b) interventions in local value chains with the potential of comparatively little benefits but for large numbers of people, donors should choose case 'b', because this implies a bigger contribution to their poverty alleviation goal.</p>	<p>The key issue is "leverage": How do we use systemic change to affect tens of thousands of people rather than apply direct assistance to help a few companies? It really comes down to a question of cost benefit. If strictly calculated with costs as money spent, and benefits as money earned by poor people, then systemic change (using a real subsector approach) will generally have the most impact if you target the right nodes that have the most leverage in fairly large sectors.</p> <p>Interventions (big/small) should depend on a cost/benefit analysis: intervention costs compared to added value in total and per beneficiary and it would be possible to group the type of (poor/rich) beneficiaries. But, it also has to consider other factors like 'likelihood of success' as well as sustainability. Traditional / regional markets are still most important, and much can be done there; i.e. focussing on small changes for many actors.</p>
<p>Conclusions by the moderator:</p> <p><i>The hypotheses should include other dimensions: Besides the economic advantage effects of donor interventions (cost/benefit analyses), the likelihood of success and sustainability factor has to be considered. Going from small to big can be seen as a timely sequence.</i></p>	<p>Another point to be considered may be the demonstration or learning effects. Thus to go from smaller to bigger may also be a time sequence.</p>
<p>6. Hypothesis: VC Governance</p>	<p>Main points from the debate:</p>
<p>External facilitation and VC support does not change anything in an established VC, as long as the 'cheating-mentality' does not change. Donors should concentrate on transparency, information systems and control systems.</p>	<p>Concentrate on building trust: with a common vision and interest and good interaction; with a well structured market-oriented participatory process involving VC actors.</p> <p>The 'outsider' role is important focusing on shared market opportunities. Transparency does not mean to reveal business secrets (margins, gains, salaries, etc.); in business, there is room for gaps – as long as the negotiation process is clear and transparent.</p>
<p>Conclusions by the moderator:</p> <p><i>Cheating can be an important reason for the malfunctioning or non-functioning of a value chain. Donors can play a role in dismantling these bad habits, but it is better solved by the business partners. Further: cheating is an important part of the story but not THE story.</i></p> <p><i>Vertical cooperation along VCs highly depends on trust among VC operators, common visions and information sharing as key success factors for efficient formal / informal VC relationships.</i></p>	<p>Cheating is then often the case when market relations are 'not fixed': both traders and producers cheat as they look for short-term gains and with reason: there are others to work with next season so why not grabbing now?</p> <p>Mistrust can also occur because of a lack of transparency and knowledge (e.g. unclear quality norms and payment procedures); and not just because on cheating mentality.</p> <p>When cheating is a habit, a process is needed to "filter out" cheating actors. Where mistrust occurs because of lack of transparency, trust and transparency building mechanism can be supported.</p>

7. Hypothesis: Information	Main points from the debate:
<p>Many rural markets lack appropriate information systems. Input suppliers, producers, traders, service deliverers and buyers would profit from advanced access to important information. VC outsiders – donors, NGOs – should always consider the issue of access to information and knowledge management within value chain development as crucial.</p>	<p>An info system that supports identifying opportunities is vital. First identify the (broad) opportunities in an area and then tailor make the info system to promote these. To obtain real insights (information that matters) in a few commodity lines is challenging enough, i.e. to update it with (international) market developments, and let's not water down the wine by trying to be too broad.</p> <p>What kind of information? Only spot market prices are not enough for sustainable business. You need trend information etc. A problem is that the information comes from outsiders, while only insiders have access to the most important information.</p>
<p>Conclusions by the moderator:</p> <p><i>The need of information systems is widely acknowledged. The information content and its financing depend much on the different contexts and should be further discussed.</i></p> <p><i>(a) Access to relevant information and (b) functioning two-way (up-stream / downstream) information flows are main factors for functioning VCs.</i></p>	<p>Independent news service. Independent news service for producers, processors, transporters etc. involved in different markets. For each product you gather and distribute market prices, demanded qualities and even some kind of prognosis for the next few days. This is what many rural producers lack: some information that goes beyond what the intermediary tells them.</p> <p>Financing rural information systems (RIS). RIS could be co-financed by a lead-company in the chain – of course with the challenge of staying independent; or financed through advertisements, or through sponsoring. Link the system with market players, like supermarkets.</p>
8. Hypothesis: VCRD and project cycles	Main points from the debate:
<p>(1) Project periods are often too short for effective VC support. (2) Donors should change their result-based project-cycle-thinking and search for more adequate investment mechanisms; considering the needs, changes and complexity of markets.</p>	<p>Apart from adapting products, technologies, distribution channels etc. (hardware) to market requirements – donors have to foster MENTALITY CHANGE. Changing mentalities needs time – most likely more time than adapting the “hardware”.</p> <p>Projects need to have enough time (i) to create a real success story together with change agents (early adopters according to the innovation theory) and (ii) to spread the message of this success story and facilitate less innovative people, who would be capable and interested to follow this example, to copy the success story (early majority).</p>
<p>Conclusions by the moderator:</p> <p><i>This hypothesis has not been discussed the way it is stated now. Further inputs will be gained during the next VCRD cycles.</i></p>	<p>Projects should be conceived as learning projects, not only for the partners, but also for the donors and their consultants. Mentality change is our biggest concern and challenge!</p> <p>‘Low input / long time’ is much more effective than ‘high input / short period’; and that seems to be the hardest point to get through: donor think in projects and doing, and not in facilitating and learning.</p> <p>A further discussion should concentrate on two issues: (1) the way projects are planned based on expected results (VC interventions require venture capital!), and (2) the time frame of projects (which may vary from different intervention strategies and reporting requirements).</p>

The idea of creating something different than VC development projects – a local VC or rural business incubation center – raised during the first cycle in November 2004. Since then, many participants were involved in re-thinking the idea. Again, we are posting the latest draft information about such a venture in following information box.

Information Box: Rural Business Incubation Tank - a draft from the VCRD discussion

A sketch:

A rural business center operates like an "incubation tank" for rural business ventures that would impact on income through VCs.

What does it do?

- Hunt for good and even "crazy" ideas among the local population that want to earn money, and outsiders interested in investing money or being specific goods (i.e. money from migrants).
- Get the two together, combine them, interact and build ideas worth testing.
- React immediately on ideas. Coach these ideas to the point where they may be tested. Fast and constructive reaction is essential.
- Fund the testing of technologies, marketing procedures, information flows with "rural venture capital" to do the R&D. These must be small projects. Venture capital means, if it works: pay back with interests. If it doesn't work, the investment is lost.
- Build business plans of successful ventures, and then coach the owners of the idea to approach normal finance sources (credits, investments).

Who operates it?

- This must be operated by people who combine two sets of skills: Hard-nosed enterprising skills, and an intimate understanding of and skill in interacting with a rural population and particularly with the poor and remote peoples.
- An incubation tank should be operated like a commercial venture.

How to fund it?

The incubation tank operates as a business, but at present such companies don't exist. The reason is that the transaction costs are far too high due to the typical dilemma of 'rurality', i.e. distance, markets. So this kind of incubation tank company would have to be financed like this:

- The company itself invests in those ventures that turn out to be successful and thereby recovers some of the venture capital.
- Donors provide funds for specific efforts aimed at particular sectors of the rural population.
- Topping up by donors for successfully achieved business plans that allow increasing the added value within rural areas.
- Large trade companies may invest in the incubation tank because they are interested in getting enough raw or semi processed products of superior quality.

So the income streams are actually:

- Directly from the successfully incubated ventures. The incubation tank does not own the emerging businesses, it is simply a shareholder and business-coach.
- Backup funding by Donors, wherever possible tied to the success of the work of the incubation tank.
- Contracting by companies operating on the large markets.

Legal:

- The incubation tank has a commercial licence.
- It could also operate as a foundation. This may actually be easier for funding agencies to work with, and may be more consistent with the activities of the tank.

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