

Session #1 - Value Chain Financing

Moderator: Christian Sorenson

Panelists: Aleke Dondo, KDA, *Commodity Chain Financing: The Case of Honey in Kitui District*
Beth Mwangi, IBL, *Using Value Chain Financing to Make Money Grow on Avocado Trees*
Mark Rostal, KEMCAP, *Maize Warehouse Receipting in Kenya and Emerging Worldwide Trends*

Session Description:

The Value Chain Approach as well as Sub-Sector Analysis describe the market chain and the transactions in it from producer to final consumer. The aim of both approaches is largely to identify and address constraints along the chain. The smoother functioning of the market chain is often the objective for developmental interventions.

These constraints are of different nature which require different solutions. The solutions can be divided into at least three groups:

1. Solutions which require policy or strategic interventions
2. Solutions, which can be solved by BDS
3. Solutions, which require financial services

While it may certainly be optimal to see interventions holistically it makes good sense to focus particular attention on the last group – the financial services. There is a tendency to ‘forget them’ or – wrongly – assume that the financial constraints will automatically be taken care of by existing financial service providers, MFIs, SACCOs, banks etc.

This assumption is not correct. The financial sector is generally not geared to look at business expansion along commodity chains. This is also the case for e.g. rural MFIs, which, if at all they deal with enterprise development financing, will target the service sector and trade before agricultural production and processing. Only few finance products purposely address financial constraints in the commodity chain. These constraints are many:

- Producers such as farmers often have problems with financing inputs and typically sell the harvest immediately at unfavorable prices due to lack of storage facilities and good marketing strategies.
- Traders often complain of lack of short term finance to buy bulk
- Volume suppliers – be they traders or organized farmers - have working capital constraints to cover the gaps from delivery to payment
- Processors have similar gaps from buying the raw material to selling the processed commodities
- Asset financing is limited by lack of financial sources and appropriate finance products available for small farmers and processors in agriculture.

Some new financial products and initiatives for especially agriculture and MSEs are, however, emerging – not only in Kenya. These include:

- Input financing, e.g. by processors via contract farming in cotton
- Factoring
- Micro leasing
- Micro insurance, e.g. livestock insurance
- Warehouse receipt system

Some of the key questions under this head line are:

- How can the finance sector be convinced to think ‘commodity chain’ approach in stead of (or together with) with their conventional ‘catchment area’ approach?
- Minimalism in Microfinance needs to be replaced by a more holistic approach – but how is this done without returning to ‘integrated approaches’?
- How can assets be financed along viable commodity chains?
- Where are we with the innovative approaches to leasing, insurance, warehouse receipts and money transfer in Kenya?

Session #2 – Producer Group Dynamics

Moderator: Kevin Billing

Panelists: George Odo, CARE International, *The VegCare Experience – Match Made in Heaven or in Bed with the Enemy?*

Lucy Nguru, Apex Micro-Credit Consultants, *Making Money through Avocados – the Successes and Challenges of Producer Group Linkages with a Lead Firm*

Amos Waweru, Standards and Solutions, *Breaking Barriers within Smallholder Export Horticulture – the Freshlink VMO Experience*

Session Description:

Business ventures will strive to maximise their returns by adopting various methods of efficient production. For the larger operations, an economy of scale is easily achievable, due to bulk purchases, division of labour, transportation of high volumes of product, easy access to capital among others. Micro and small enterprises (MSEs) cannot enjoy this economic benefit due to the many limitations they experience. These include limited capacity to purchase inputs, low technical skills, unavailable credit, and poor access to markets, which are driven by high quality and volumes.

Individually, micro and small enterprises are hardly capable of overcoming such limitations. It is only through pulling their resources together, be they financial, technical, production, or management - that individual MSEs can grow and compete in the formal economy. This thinking has driven the development and formation of business oriented producer groups.

The formation and structuring of groups however is not always straightforward, and has often been oversimplified by donor practitioners. The process of group formation can be expensive, time consuming, and quite often unsustainable. It is not uncommon to witness a group break apart even before donor support has ended. This is sometimes manifested by poor donor signals, whereby MSEs will join a group with the incentive to “access donor resources” rather than to address a specific commercial objective. At other times group dynamics are challenged by poor leadership, or lack of solidarity related to issues of savings, credit, or buying and selling as a unit.

With the above in mind, this break out session will examine the advantages and challenges of group formation as a means of bulking inputs, accessing business services, leveraging credit, or linking with the end market. Through presentations drawing from practical examples in Kenya, the following issues will be addressed:

1. Where does the concept of group formation fit within an evolving value chain framework?
2. Is group formation a public or private good, and who should pay for this process? Can group formation be offered as a commercial business service?
3. What are the key challenges in the formation and development of producer groups, and how have these constraints been addressed?
4. How may groups be successfully linked with the market? With providers of business or financial services? With suppliers of bulk inputs? What structures may be put in place to ensure group cohesion and sustainability?
5. Can groups be formed for multiple purposes, or should separate groups be formed for various activities eg saving groups, producer groups, social group?

Session #3 – Emerging Methods of Business Service Delivery

Moderator: David Knopp

Panelists: Fred Ogana, TechnoServe, *The Business Hub Approach to Service Delivery – A Dairy Sector Analysis*

David Sanders, FIT Resources, *Mali Shambani – Business Service Delivery through Interactive Radio*

Christine Guchu-Katee, WMG Consulting, *Delivering Profitable Market Linkages*

Session Description:

Donor practitioners have explored numerous means of business service delivery over the past decade. Rural-based business centers were a popular approach in the mid '90's, however the over-reliance on donor subsidies and heavy supply-side orientation rendered this model unsustainable and highly distortionary. Stemming from the lessons learned in microfinance, the Committee of Donor Agencies for Small Enterprise Development conducted a series of working groups, conferences, and widespread discussions attempting to identify and achieve consensus on more effective intervention. In February 2001, the *Guiding Principles for Donor Intervention* were released, which introduced the BDS market development framework.

The market development approach represents a fundamental shift in BDS donor intervention. It recognizes BDS as largely private “goods,” which are most efficiently provided within a commercial market. SMEs are viewed as discerning consumers of BDS, that are both willing and able to pay for services if the product is appropriately designed, delivered, and priced. Today, the primary objective of donor intervention is to improve the functioning of BDS markets, where effective supply meets effective demand. This is achieved when: (1) MSEs recognize the need for a service and are willing to pay; and (2) providers look to MSE consumers for market signals, and have the capacity to address their needs.

While these principles are largely accepted, the practical realities of reaching down-market through the private sector has been a continual challenge for donor practitioners. Not only do rural MSEs have limited resources to invest in such services, but they often fail to realize a timely or measurable impact on their bottom line. Hence reluctance to purchase such services is commonplace. At the service provider level, packaging and pricing a commercial service offering which targets rural MSEs remains a lingering concern.

To address this challenge, delivery methodologies have included stand-alone (fee-based) services, as well as embedded service offerings, whereby the cost of service delivery is “embedded” in the commercial transaction with the lead firm.

The purpose of this break-out session is to examine emerging methods of service delivery in Kenya, and examine how donor practitioners are able to facilitate the provision of business services “down-market” while maintaining the principles of commercialization and market development.

Critical questions will be examined such as:

1. How have donor practitioners overcome the challenge of reaching down-market?
2. What practical strategies have been tested in Kenya, and how viable or commercial are they?
3. What are the opportunities for “scaling-up” the approach, and reaching other MSEs in other regions as well as other product markets?

Session #4 – Sector Coordination and Policy Formulation

Moderator: Anthony Getambu

Panelists: Bridget Carrington, Dormans, *The Role of Coffee Apex Committee in Influencing Policy*
Dr. JK Wanjama, Agriculture Sector Coordination Unit, *Policy Formulation in the Agricultural Sector*
Jane Ngige, Kenya Flower Council, *The Kenya Flower Council Case Study*

Session Description:

There is general recognition among practitioners that subsector and value chain analysis are useful approaches that can help identify constraints to MSE growth and competitiveness in a given sector. Many sectors are however, influenced by lead firms, which often are multi-nationals, large integrated enterprises or product buyers. The nature and governance of a sector in which a firm or industry is engaged is therefore an important element of its operating environment.

Sector coordination is designed to identify the relationships between the key chain/sector players and come up with specific interventions that will strengthen these relationships. Such interventions may include joint sourcing of raw materials and other inputs, production, distribution and marketing. Sector coordination will involve:

1. Identification of key sector players or stakeholders, their functions and relationships.
2. Determination of sector governance or leadership strategy, eg. through an apex body.
3. Establishing and strengthening the sector coordinating body outlining its composition, roles and responsibilities.

Among the roles and responsibilities of the sector coordinating body might be that of influencing policy. A policy can be thought of as a set of instructions from policy makers to policy implementers that spell out both goals and the means for achieving those goals. It is now widely recognized that a conducive and enabling policy and regulatory environment is crucial to the development of micro and small enterprises (MSEs).

The principal actors in policy formulation are the "legitimate" or formal policy makers. These people include elected officials, legislators, and high-level administrative appointees, each of whom must follow prescribed paths to make policy. Thus policy making usually involves a diverse set of authoritative or formal policy makers, who operate within the governmental arena, plus a diverse set of **special interest and other constituency groups from outside arenas**, who press their demands on these formal leaders.

The following are among the questions to be addressed during the break out session.

1. "Why" sector/value chain coordination?
2. What strategies are practitioners using to achieve sector/value chain coordination?
3. What policy issues are affecting the development of rural (agriculture) MSEs and what has been done, is being done and by who to address these policy issues?