FIELD FACILITATION WORKING GROUP
WORKING PAPER

CYCLE 1: DEFINING LEAD FIRMS AND PRINCIPLES OF FACILITATION

AUGUST 2008

About this Document

This technical brief is the first in a series being produced by the FIELD Facilitation Working Group, an initiative to capture and share the knowledge of FIELD LWA consortium members on effective facilitation in enterprise development, particular in the context of dealing with lead firms. The report presents the collective response of working group members to the questions outlined within. It has been made public both to inform the work of others and to provide an opportunity for open feedback. Over the coming year the Working Group, with support from USAID and AED through the FIELD Support Leader with Associates, will periodically review and refine this resource before publishing a final version in November 2009. If you have comments, please direct them to facilitationwg@actionforenterprise.org.

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I. Introduction

This document presents the results of the first "cycle" of discussions of the FIELD Facilitation working group. T he objective of this working group (see appendix for list of participating organizations) is to share experiences and identify best practices for facilitating value chain development programs – and more specifically how programs can best work with "lead firms" to accomplish their goals. In an effort to structure the work, a series of nine "discussion cycles" has been developed that will take place over a one-year time period (see appendix for list of these cycles). Each cycle takes place over a 2-3 month period and consists of preliminary tasks, a working group discussion, and a synthesis of results.

This first cycle, entitled "Defining Lead Firms and Principles of Facilitation" was designed to serve as the foundation for the subsequent cycles. It begins with a description of lead firms (in the context of value chain development programs) and is followed by a section on "principles/good practice for facilitation (in the context of working with lead firms)". This section includes topics on sustainability, promoting relationships among value chain actors, choosing lead firms to work with, and structuring collaboration.

II. Description of "Lead Firms"

Before considering effective facilitation techniques (in context of working with lead firms) it was important to clearly establish what the working group recognizes the term to mean. The following definition and list of lead-firm attributes form the basis upon which the group will build subsequent conversations and papers in this series. Lead firms are described as:

1. Small, medium, and large firms that have forward/backward commercial linkages with targeted micro, small, and medium scale enterprises (MSMEs). In this context, lead firms:
    a. include buyers, traders, input suppliers, veterinarians, exporters, processors, etc.
    b. vary significantly in size and may operate as part of either the formal or informal economy
    c. have varying levels of formality in their relationship with targeted MSMEs, ranging from completely informal (market-based governance system) to formal, contract-based arrangements (directed governance systems)
    d. manage and control different phases of the value chain / frequently engaged in aggregating production among producers
    e. are distinguished by the commercial interest they have for engaging with MSMEs (not just corporate social responsibility) and the leverage potential they have to impact MSMEs (important characteristics from a development programming perspective)

2. Dynamic market actors that can promote greater integration of MSMEs into value chains and provide important goods and services. In this context, lead firms:
    a. may provide complementary fee-based or embedded services (including training, technical assistance, inputs, and financing) as part of their business relationships with MSMEs
    b. frequently add value to raw materials/products and provide linkages to final markets
    c. often serve as industry models, key innovators and respected thought leaders in their industries
    d. often are "first movers" and innovators in new sectors
    e. often have significant influence in tackling enabling environment issues
    f. share a mutual interest with MSMEs and have a vision for incorporating them into the value chain / without this they may not be catalysts for change

3. By promoting relationships between these firms and targeted MSMEs projects can promote industry competitiveness, achieve leveraged and sustainable impact for targeted MSMEs, and demonstrate the value of working with MSMEs.

III. Principles of Good Practice for Facilitation (in context of working with lead firms)

Prior to initiating activities with lead firms it is assumed that a value chain analysis/program design has taken place. It is also assumed that this program design has determined that: 1) working with lead firms in the value chain could result in sustainable solutions to value chain constraints, greater value chain competitiveness, and greater integration of/benefits to MSMEs, and; 2) there are opportunities, and a shared vision among market actors, for pursuing mutual benefit (and that successful models of doing this could be replicated). Having established this, the following sections describe principles of good practice.

3.1 Promoting Relationships between Market Actors

1. Respect the experience and knowledge of all market actors (esp. lead firms) and engage them in the design of program interventions that can address value chain (VC) constraints
    a. bring together actors to stimulate open conversations, establish common objectives, and make commitments
    b. support adaptation of lead firm models to local context
    c. ensure lead firm is owning the process (need to step away and allow lead firm to move ahead on its own)

2. Stay out of commercial, intermediary, or negotiation roles in the value chain / do not negotiate with market actors on behalf of producers.
    a. do not be overly involved in initial start-up of relationships between market actors / can provide suggestions but ultimately let lead firms and producers work this out
    b. heavy involvement in structuring relationships and defining responsibilities between market actors can create confusion and make relationships more difficult
    c. should serve more as a “relationship-broker” / support market actors to come up with appropriate solutions/structures in participatory fashion / be an “angel on the shoulder” of market actors
    d. improve/ expand the capacity of lead firms to provide needed products/services to MSMEs they buy from/sell to (market access, technical support, inputs, finance, etc.)
    e. suggest that lead firms and producers start with simple relationships / avoid promoting too elaborate a structure from the beginning (e.g. lead firm could start with purchases then provide inputs and other services at later point)
    f. avoid being the instigator of ideas (providing solutions to economic constraints, structuring relationships between market actors, etc.)
    g. ensure producers and firms negotiate contracts between themselves / should not serve as contract developer or enforcer
    h. keep a low public profile / stay in the background / give credit to involved market actors
    i. allow relationships between market actors to develop organically (even if this takes more time)
    j. communicate the importance of sustainable, long-term impact to donors and the downside of short term “results” that may ultimately undermine long-term impact
    k. could be situations where some “quick wins” are needed to establish project credibility before full facilitation principles can be applied

3. Present lead firms with alternatives to formal contracts with producers (unless formal contracts are more appropriate)

4. Allow lead firms and producers to work out most appropriate structures for buying/selling without imposing preconceived organizational structures

5. Be careful of promoting pre-determined solutions that are informed/limited by preconceptions or ideologies and that could lead to selection of non-optimal interventions (e.g. seeing cooperative-type organizations as necessary part of solution)

6. Understand the needs of all market actors and ensure that they have requisite incentives and interest to work together / understand “underlying drivers of adversarial conduct” among value chain actors

3.2 Choosing Lead Firms to Work With

1. Select lead firms with large number of commercial linkages with MSMEs and demonstrated commitment/willingness to invest in improved/ expanded relationships with them

2. Select lead firms (whenever possible) with sufficient financial strength and long-term perspective needed to make required investments (but don’t make automatic assumption that large firms will make large investments)

3. Work with as many lead firms as possible (given program capacity) to expand outreach/impact, increase producer options, increase replication opportunities, and ensure program continuity if some firms drop out / programs also need to understand the trade-offs of working with few versus many firms

4. Conduct “background check” of targeted lead firms (reputation in market, history of relations with other market actors, track record of respecting laws and environment, etc)

5. Establish criteria for selecting lead firms to work with

6. Try to remain neutral of local authorities/political pressures in selection of lead firms (as well as target areas and implementation activities) to avoid damaging image and credibility of program

7. Ensure that there is strong market for lead firm products (and related inputs/products from producers) before engaging in program activities / understand from the beginning the competition that lead firms/producers face (imports, etc) / assess the capacity of lead firms to successfully compete in these markets

8. Identify whether there are distinct “end markets” for different value chain products / take this into account when selecting lead firms to work with (based on their capacity to compete in those different markets)

9. Understand the “leverage potential” of different lead firms (for achieving scale and systemic impact) / but be careful of automatically choosing large lead firms due to program time constraints

3.3 *Structuring Collaboration with Lead Firms*

1. Build collaboration between program and lead firms gradually / promote relationships between market actors gradually (as they usually start from position of little trust)

2. Develop written memorandums of understanding and work plans that clearly delineate the role of the project and the lead firms for different activities, and clearly define any cost share contribution that the project will make to these activities

3. Maintain trust and confidentiality regarding the lead firms’ operations, strategies, and investments / include confidentiality and non-disclosure clauses as part of MOUs

4. Work with lead firms to determine the market demand or feasibility of new/improved products, services or operating models that will provide positive impact for them and the producers they buy from/sell to

5. Recognize the importance of different VC "functions" (esp. intermediation) and understand the role that existing intermediaries play (brokers, traders, etc); don't assume that "functional upgrading" of producers is a requirement (i.e. having them take on trading, processing, and/or other VC functions)

6. Ensure that linkage models being promoted are feasible / commercially viable before promoting replication and/or advising lead firms to scale-up (might need to advise lead firms to start slowly)

7. Start with quick wins before developing or facilitating more comprehensive relationships

8. Minimize the level of M&E requirements for lead firms and MSMEs
    - find ways of collecting needed data (and ensuring causal model / benefits flowing to producers/target group) without overburdening the market actors (otherwise can reduce attractiveness of collaboration for lead firms and producers)
    - incorporate lead firms in defining / reviewing M&E indicators (to ensure feasibility of collection and inclusion of informational interests they may have)

9. Help lead firms providing embedded services to "price" or "cost" these products/services at reasonable rates, affording them a profit and thereby improving the likelihood of continued service delivery over the long-term

10. Understand and appreciate the incentives/risks of lead firms to provide needed products/services/ solutions to MSMEs (e.g. will only provide inputs and finance to MSMEs if they will not suffer 'free rider / side selling' problem - i.e. others purchasing who have not provided any inputs).

11. Be careful of "over-incentivizing" lead firms to work with MSMEs when it is not in their commercial interest or part of their strategic vision as this will likely break down when the project ends

12. Allow lead firms to enter and leave program based on performance and interest; have a structured process for, and be open to, accepting new lead firms as the program progresses

13. Regularly monitor the commitment of lead firms in carrying out agreed upon work plans and cost share agreements making sure they make agreed upon investments (personnel, equipment, etc.) to ensure sustainability (should also ensure that services promised by lead firms are delivered)

3.4 *Ensuring the Sustainability of Impact*

[Many points in other sections may also apply here, and many of these points will apply equally to promoting sustainability within a general value chain context.]

1. Ensure that by the end of program market relationships and linkages are "complete" and sustainable (people trained, capacity built, transactions taking place, etc.) / in this way donor resources will not be lost

2. Develop specific "exit strategies" for each cost share activity with lead firms (include these in MOUs/ cost share agreements)

3. Monitor the sustainability of the *relationships* between market actors (not just short term transactions) / can go further as well to measure trust, mutual benefits, etc.

4. Have an M&E system that goes beyond just donor reporting and that includes systems / indicators for looking at:
    - program performance /making necessary changes during implementation
    - quality and *sustainability* of relationships between lead firms and MSMEs
    - sustainability of impact / whether facilitation activities are contributing to this

5. Be flexible and able to change strategy according to changes in markets even if it means changing original strategy (need to recognize changing nature of markets / enabling environment)

6. Take a holistic approach to addressing VC (lead firm/producers) constraints – do not just focus on one issue without considering broader context / look to address issues that can have broad impact in VC

7. Be realistic about the time frames required to develop certain markets and promote change / be careful of engaging in program if time frame (funding) is too short to promote needed changes

8. Be aware of implicit subsidies to lead firms (such as reliance on program staff, vehicles, etc.) that can undercut long-term sustainability of lead firms and/or their MSME linkages by doing too much for them / avoid direct financial subsidies that go beyond "time-bound catalytic risk-sharing"

9. Be careful of choosing path of least resistance (handouts) and rationalizing this as "helping farmers understand productivity gains by adopting improved technology" / providing unsustainable products/services can result in resistance to more sustainable approaches

10. Avoid disbursing money without careful analysis from sustainability perspective / avoid disbursing only to demonstrate "I was here and did something" / work to break out of cycle (and mentality) of subsidies and donated money (accepting possibility of working oneself out of job)

11. Ensure that an analysis of needed support markets (inputs, finance, transportation, etc.) has taken place to ensure that these markets exist or that the possibility exists for them to be improved/developed

IV. Conclusion

In this brief the working group aimed to provide a common definition for lead firms, highlight some of the key elements of selecting and working with these entities, and offer guidance, both general and specific on how to do this effectively. Executing these ideas effectively is a function of knowledge and experience. In the forthcoming briefs, the working group will provide more information as well as reflections from program experience around the world, in order to facilitate the practical use of this knowledge in the field.

APPENDIX A: WORKING GROUP MEMBERSHIP AND STRUCTURE

The FIELD Facilitation Working Group draws on the collective experience of a number of leading organizations working in this area including: ACDI/VOCA, AED, Action for Enterprise (AFE), CARE, MEDA, Save the Children, TechnoServe, and WOCCU. The group is chaired and facilitated by AFE with support from AED through the USAID FIELD LWA.

Working Group members include:

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APPENDIX B: CYCLE TOPICS FOR FIELD FACILITATION WORKING GROUP (YEAR 1)

CYCLE 1

- Definitions and terms
    - Key principles of Facilitation
    - Lead Firms
    - Sustainability

CYCLE 2

- Methods for identifying/selecting lead firms/market actors to work with
    - Identification within value chain context
    - Selection criteria / factors that lead to success
    - How many to work with

CYCLE 3

- Structuring and managing collaboration
    - Types of agreements / smart subsidies
    - Ensuring commitment
    - Establishing credibility and trust / balancing interests

CYCLE 4

- Types of interventions / capacity building activities
    - [TBD] Links to fin institutions, staff training/TA, buyer visits, demo plots, QM initiatives, exploration/ learning visits, links to input supply companies, trade shows, , etc.]

CYCLE 5

- Addressing weak/nonexistent functions in VC
    - Strategies for addressing weak/nonexistent functions in VC
    - Options/best practices (improve existing lead firms, create new, indigenous organizations, co-investments, etc.)

CYCLE 6

- Ensuring sustainability / exit strategies
    - Building exit strategies into program design
    - Factors/ principles for ensuring sustainability
    - What happens after project activities