FIELD FACILITATION WORKING GROUP
WORKING PAPER

CYCLE 5: Addressing Weak / Nonexistent Functions in the Value Chain

OCTOBER 2009

About this Document

This technical brief is the fifth 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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Table of Contents

List of Acronyms

ACE	Agriculture and Children's Empowerment
AFE	Action for Enterprise
CLUSA	Cooperative League of the United States of America
DO	Development Organization
FIELD	Financial Integration, Economic Leveraging, Broad-Based Dissemination Project
IB	Intervention Brief
LF	Lead Firm
MEDA	Mennonite Economic Development Associates
MOU	Memorandum of Understanding
MSME	Micro, small and medium-scale enterprise
PROFIT	Production, Finance and Improved Technologies
USAID	United States Agency for International Development
VC	Value Chain
VMC	Village Milk Collectors

I. INTRODUCTION

This document presents the results of the fifth "cycle" of discussions of the FIELD Facilitation working group. The objective of this working group (see Appendix A for list of participating organizations) is to share experiences and identify best practices for facilitating value chain development projects – and more specifically how projects can best work with "lead firms" (LFs) to accomplish their goals.[1] In an effort to structure the work, a series of six "discussion cycles" has been developed that are taking place over a one-year time period (see Appendix B for a list of these cycles). Each cycle takes place over a 2-3 month period and consists of preliminary tasks, working group discussions, and a synthesis of results.

This Cycle 5 document, entitled "Addressing Weak / Nonexistent Functions in the Value Chain", discusses how development programs can promote lead firms to take on missing functions. It begins with a description of value chain functions (and lead firms providing those functions) that are sometimes missing in value chains. This is followed by a presentation of different approaches that development organizations can pursue to promote lead firms to take on the missing functions, including real life examples from development programs. The focus of Cycle 5, as with all Cycles in this Working Group, remains on lead firms, which, as defined in Cycle 1, are the small, medium and large enterprises with existing or potential linkages with targeted MSMEs.

II. WORKING WITH LEAD FIRMS TO ADDRESS WEAK / NONEXISTENT FUNCTIONS

Value chain development practitioners sometimes find that there are missing functions (and lead firms exercising those functions) within a value chain they are targeting. The lack of these functions / lead firms may constitute a considerable constraint to the growth and competitiveness of the value chain and to increasing benefits for MSMEs. Examples of missing lead firms might include:

- Buyers of MSME products connected to growing domestic or international markets (wholesalers, exporters, etc)
- Processors of MSME products that could open opportunities into new market segments
- Firms selling or leasing equipment or machinery (tractors, drills, irrigation equipment, etc)
- Operators of critical infrastructure (e.g. cold chain facilities, telecommunications, transport, etc.)
- Technical specialists (e.g. handicraft designers, veterinarians, etc.)
- Certification bodies (e.g. HACCP certifiers, laboratories, etc.)
- Providers of critical raw materials or inputs (wood, metals, seeds, etc)

The objective of this fifth cycle is to understand better the ways in which development organizations can support lead firms to take on critical value chain or support market functions. The following general approaches were identified:

1. Work with existing market actors in the value chain (already providing the function) to expand their activities to new areas
2. Work with existing market actors in the value chain (not currently providing the function) to integrate the new function into their activities
3. Promote new market actors (currently not operating in the value chain) to take on the new function
4. Promote producer groups to take on the missing function[2]

[1] Lead firms are defined as: 1) small, medium, and large firms that have forward or backward commercial linkages with targeted micro, small, and medium scale enterprises (MSMEs); 2) dynamic market actors that can promote greater integration of MSMEs into value chains and provide them with important products and support. By promoting relationships between LFs and targeted MSMEs DOs can promote industry competitiveness and achieve leveraged and sustainable impact for targeted MSMEs.

[2] Producer groups are an important alternative to consider in solving the problem of missing functions. This paper does not discuss their promotion, however, as the topic has been discussed at length elsewhere.

2.1 Work with existing market actors in the value chain (already providing the function) to expand their activities to new areas

Circumstances exist in which market actors may already be performing the needed functions to a limited extent. In these situations, development practitioners should not distort markets by establishing new market actors to play this role, but should instead encourage existing market actors to expand or improve their activities to fulfill these functions. Development organizations can support existing market actors to:

- Expand coverage into new geographical / product areas, and/or;
- Improve the services / products being offered to better meet the needs of MSMEs

Below are two examples of programs in which development organizations have encouraged existing market actors / lead firms to fulfill missing market functions. The first example demonstrates how the PROFIT project in Zambia, implemented by CLUSA and the Emerging Markets Group, supported veterinarians to expand their provision of commercial veterinary services into underserved rural areas. The second example illustrates how the Agriculture and Children's Empowerment (ACE) project implemented by ACDI/VOCA in Liberia facilitated existing agricultural input supply companies to experiment with new service delivery models to expand farther into rural markets.

In Zambia, veterinary care for smallholder cattle farmers is unavailable in many rural areas. There is a shortage of veterinarians in Zambia to meet the existing demand for veterinary services, and most vets choose to work primarily with larger commercial cattle owners. This is due in part to the fact that most smallholders are thinly spread across the Zambian countryside. In addition, most smallholders are unfamiliar with preventative veterinary care and unconvinced of the value of modern medicine. These factors all combine to increase disease and death among livestock, which leads to lower productivity and lost wealth for rural smallholders.

The PROFIT project aimed to improve the livelihoods of rural smallholder cattle owners through increasing access to and demand for veterinary services. The project provided veterinarians with a standard offer based on the business rationale for entering the rural cattle owner market. This offer was made to all identifiable vets and the vets self selected into the program. The offer required an investment from the vets to organize a service offer (based on advice from the project) and present it via a promotional event to rural communities. Veterinarians selected into and out of the program based on performance laid out in MOUs. As long as the veterinarian lead firm was moving forward with pushing the market for their services to rural communities, the project provided support by buying down their risk to expand farther into the rural market through a number of activities including:

1. Increasing access to information,
2. Providing technical assistance and training[3], and
3. Cost share on promotional activities.

In Liberia, more than fourteen years of civil war and government corruption destroyed much of the country's economy and infrastructure. Many businesses fled during the years of conflict, taking capital and expertise with them, including many businesses in the agricultural sector. As a result, many areas of have limited access not only to agricultural markets, but also to agricultural support markets, including improved inputs. This lack of access severely limits agricultural productivity, and leads to lower income for rural farmers.

One goal of the ACE project is to foster economic growth in rural areas of Liberia through supporting the commercialization of smallholder agriculture. One step in achieving this goal has been to promote a solutions-based marketing and distribution model among agricultural input supply companies to improve their access to and effectiveness in rural markets. A standard offer was made to all identifiable input supply companies based on the business rationale for entering the rural smallholder market, and firms self selected into the program based on performance laid out in MOUs. The offer required an investment

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[3] Trainings were related to specific capacity building required for the business model and were in the form of TOTs so that senior management could take on the training as the business expanded.

from the firms to organize distribution points in rural areas (based on advice from the project) and present the model via promotional events to rural communities. As long as a firm was testing the rural smallholder market for agricultural inputs via a solutions-based marketing and distribution model the project provided support by buying down their risks to expand farther into the rural market. Specific activities undertaken by the project to support these lead firms included:

1. Increasing access to information,
2. Providing technical assistance, training, and;
3. Cost share on promotional activities.

2.2 Work with existing market actors in the value chain (not currently providing the function) to integrate the new function into their activities

In situations where there are no lead firms providing the needed function, a development organization can approach market actors that are already operating in the value chain to explore their interest and willingness to integrate the new function into their existing activities. The example below shows how the STRIVE Philippines project, implemented by Action for Enterprise (AFE), facilitated seaweed trader/ suppliers (existing market actors) to start commercial seaweed nurseries, a completely new business in the seaweed value chain.

In the Philippines seaweed value chain, the primary inputs/planting materials are seaweed seedlings. These seedlings are essentially small cuttings of more mature seaweed plants; they are not seedlings propagated from seed stock. A seaweed farmer will typically take a line of his seaweeds which are not yet fully mature and 'split' the plants into smaller cuttings for re-planting on a new line. If the farmer has no seaweed lines to use for splitting, then they will seek other farmers who will sell or lend seedlings to them. Oftentimes, however, there is a shortage of seedlings and it is difficult for farmers to access them. This can be aggravated by seasonal plant disease and negative environmental factors (typhoons, strong current and waves).

The concept behind the establishment of commercial seedling nurseries is to increase the availability of and access to seaweed planting material for seaweed farmers. As private, commercially viable seedling nurseries did not exist, the STRIVE Philippines project invited selected lead firms already active in the seaweed value chain (seaweed traders and suppliers) to submit concepts for consideration. Based on these submissions, two lead firms were selected to develop commercial seedling nurseries. Support to these LFs consisted of:

1. Participatory business plan development to assist them to develop strategies and work plans for production, marketing, and nursery operations. To do this, AFE assisted each LF to develop their own business plan using a "business plan question guide" that it developed specifically for seaweed seedling nurseries.
2. Technical and financial support (on a cost-share basis) to assist the firms to buy down their risk and complete site selection, operational preparations, set up, and planting.

2.3 Promote new market actors (not operating in the value chain) to take on the new function

If existing market actors in the value chain are not interested or appropriate to take on the new function, it may be appropriate for development organizations to promote the emergence of completely new lead firms to fulfill the missing function.

In Pakistan, the Pathways & Pursestrings project, implemented by MEDA, facilitated the emergence of Village Milk Collectors (VMCs), completely new market actors, to fulfill an intermediary role in the dairy value chain in rural areas.

As the largest sector in Pakistan's agricultural industry, the rural dairy value chain consists of small scale farmers that supply the majority of their milk to 'dhodis' (middlemen) that in turn supply unprocessed milk to the informal market. Potential demand is largest, however, for pasteurized and UHT milk products; yet only 6% of total milk production is sold in processed forms. One of the key challenges for rural dairy producers is weak linkages with dairy processors thereby limiting their capacity to fully engage with and understand the demands of the commercial marketplace. Furthermore, this issue restricts the capacity of processing firms to secure a sustainable supply chain. The missing link in the value chain is lead firms (milk collectors) that can to serve as intermediaries between producers and processing firms.

With support from Pathways & Pursestrings project in Pakistan, Haleeb Foods Pakistan plans to organize women farmers and enhance their capacity to produce and market quality milk through the introduction of Village Milk Collectors (VMCs). In addition to serving as an intermediary to aggregate production and sell to Haleeb, VMCs will provide a range of services including animal husbandry techniques and potentially access to key inputs and technologies. Haleeb will also help link the VMCs with business service providers and microfinance institutions.

The project will build Haleeb Foods capacity to take the lead in organizing milk production among women farmers resulting in improved milk quality, quantity and the farmer's access to the commercial, processed dairy markets. The program will incorporate a range of capacity building tools, including formal training modules and on-the-ground mentoring and consulting. Steps to capacity building include:

1. Participation in an introductory conference to present the state-of-the-art value chain and market development approaches
2. Workshop for lead firm to develop practical skills for market research and development
3. Technical training and ongoing support for lead firm in supply chain development strategies
4. Assistance to lead firm in development and launch of VMC model, including training program for VMCs
5. Workshop for lead firm on selected topics such as results-based and performance management

III. CONCLUSION

The objective of this fifth cycle was to understand better the ways in which development organizations can support lead firms to take on critical value chain or support market functions. The following general approaches were discussed in this paper:

1. Work with existing market actors in the value chain (already providing the function) to expand their activities to new areas
2. Work with existing market actors in the value chain (not currently providing the function) to integrate the new function into their activities
3. Promote new market actors (currently not operating in the value chain) to take on the new function

Regardless of the approach taken by the development organization in working with LFs to address weak / nonexistent functions, it is important to follow the different strategies and methodologies that reflect the principles of working with Lead Firms described in WG Cycle 1.

APPENDICES

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 Y1

CYCLE 1 (June '08)

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

CYCLE 2 (Sept '08)

- 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 (Nov '08)

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

CYCLE 4 (Aug '09)

- 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 (Oct '09)

- 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 (Nov '09)

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