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Facilitating chain development

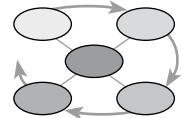
INTERMEDIARY ORGANIZATIONS CAN PLAY a vital role in developing value chains that benefit small-scale farmers. The previous chapter presented strategies that intermediary organizations can follow to improve the capacity of farmers to manage chains or to integrate chain activities. This chapter draws lessons from the cases in Chapter 3–6 about the roles of the intermediary organization in implementing chain interventions. The lessons are grouped into the five components of chain interventions that were discussed in Chapter 2 (page 28).

The intermediary organization needs to ensure that all smallholders can take advantage of a pro-poor marketing approach. In poor areas of developing countries, most communities and service providers face serious challenges in investing in new marketing interventions and sustainably raising incomes. Typically, rural communities produce low-value commodities, which face declining real prices and increasing competition from medium- to large-scale producers. Simply increasing production may not be enough to raise incomes in the long run. There are few examples of smallholders developing new, lucrative markets with undifferentiated products – except for traditional export crops, which have lost most in terms of value. There are, on the other hand, examples where improved productivity and better management have enabled smallholders to sell into existing markets, expand the area where their products are sold, and offset imports. Smallholders rarely make enough money to invest in higher-value or valued added products – though it is value addition that offers real opportunities.

This book shows how intermediary organizations have supported smallholders to confront the marketing situation in various ways:

- Improving their competitiveness in producing local products (such as jatropha in Tanzania, page 41).

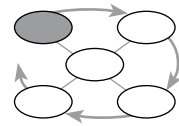
The small diagrams in this chapter refer to the five phases in chain interventions (see the figure on page 28).



- Improving group-based organizations, achieving economies of scale through collective action on inputs, production, marketing and access to services (milk cooperatives in Kenya, page 138).
- Diversifying into higher-value crops or livestock products, linked to identified market demands (vanilla in Uganda, page 128).
- Adding value to products by accessing higher-priced markets, enhancing product quality, or incorporating processing activities that meet consumer needs (organic coffee in Tanzania, page 89, or potatoes in Uganda, page 143).
- Entering new types of contractual agreements, based on forward sales that help to “lock in” buyers over a longer time at advantageous rates (pineapples in Ghana, page 34).

When implementing these interventions, they need to consider the following issues during the various phases of chain development: chain mapping and assessment, building engagement, chain development, monitoring and evaluation, and learning and innovation. The remainder of this chapter covers each of these in turn.

Chain mapping and assessment



Market-orientation and risk assessment

A market orientation implies that an intermediary organization supports smallholders, often in a particular geographical area, to identify and access remunerative opportunities for existing or new products, in existing or new markets (see the box on the next page). Smallholder farmers with limited resources cannot afford a lot of risk. If farmers depend on the sale of a single commodity, or on a single buyer, there is a significant risk that their project will ultimately fail. This was shown by the case on sunflower from Tanzania (page 84). On the other hand, if producers try to improve their production and marketing of multiple commodities at the same time, they may lose focus and not succeed with any.

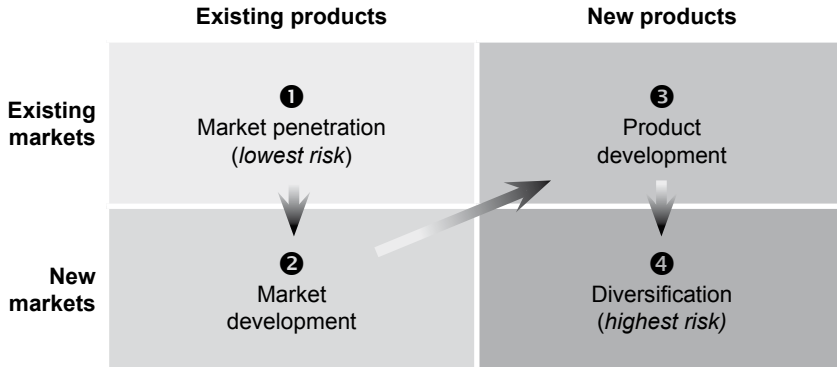
The intermediary organization should involve the farmers in selecting the products they want to invest in, based on what they see as an acceptable exposure to risk. The marketing strategy enables community members to gather information on potential market options. They can thereby build a portfolio of products or market options requiring more or less investment and embodying various levels of risk.

If people in the community want to identify new marketing opportunities, the next task is to review their level of food security and be sure that they are equipped to take on more risk. Then help them select products, supply chains and new business options that take into account a level of risk appropriate for them.

The Ansoff matrix

The Ansoff matrix (below) is a way to categorize risk options by comparing types of products and markets.

Risk increases from 1 (low risk) to 4 (highest risk).



Products in high demand tend to be highly profitable, but also very risky. So if groups look for market opportunities based on demand and profitability, they are likely to be steered towards risky undertakings. Group members need to be aware of the risks and benefits from these options.

The facilitators can use the Ansoff matrix to guide groups towards a sensible level of risk. They may advise newly formed groups to promote existing products in existing markets (the “market penetration” option, **1** in the diagram above), since this has the lowest risk.

As it gains experience and cohesion, the group might go on to test their existing products in new markets (“market development”, **2**) – perhaps by sending a trial shipment to the new market before engaging in larger scale supply.

For groups with more experience in marketing, higher risk strategies (product development and diversification – **3** and **4**) are likely to be more attractive.

More information: Lundy et al., 2005

However, the intermediary organization needs to consider the impact that a market-oriented approach may have on food security. In the case of vanilla in Uganda (page 128), for instance, farmers may not have planted enough food crops to feed themselves when world prices for this new high-value crop drop in the near future. The vanilla chain currently relies heavily on the intermediary organization, leaving the farmers at great risk when it withdraws from the chain. The case of sunflower in Tanzania (page 84) provides an example where the combination of a new product and a new market was too risky, resulting in a failure to set up a sustainable value chain. Therefore, an intermediary organization needs to strike a balance between market orientation and food security.

Local versus international markets

Most smallholders produce both for home consumption and the local market. It is important to strengthen their ties to local markets before linking them to much more complex international markets. The cases of mangoes in Kenya (page 79) and pineapples in Ghana (page 34) are excellent examples where larger agri-businesses have provided a local market for smallholders. Also, intermediary organizations should always assess the potential to scale up from initial pilot work. Interventions will be biased towards those that can reach larger numbers of beneficiaries at the outset, as it is easier to scale up from a larger starting point, i.e., many farmer groups, than from a smaller pool of beneficiaries. In the case of shea nuts in Mali (page 122), there are currently about 1400 women involved in the production and processing of about 1000 tons of nuts; however, the potential for upscaling exists, because demand for shea nuts from Mali is more than 25,000 tons.

Fostering an enabling business environment

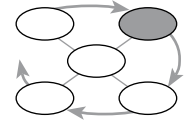
African farmers and the organizations that serve them are often poorly informed about policies, rules and regulations and development programmes. They are typically isolated from decision makers. So rural people and organizations need to organize so they can lobby for a better business environment. The facilitator may undertake a policy benchmarking study on the particular product or crop where it is considering intervening. This information can form the starting point for a dialogue between the national and local authorities, government agencies, donors, the private sector, NGOs and community organizations. The facilitator may develop the farmers' organization's pleading and lobbying capacities, or advise them to join an established pressure group. Strategic themes for lobbying may include encouraging authorities to recognize farmers' organizations as credible business groups that should be supported; promoting agriculture and industry services with a balanced package of grants, subsidies and incentives; promoting rural private-sector development policies; adjusting or enforcing rules, laws and tax systems; or developing national standards and strengthening certification procedures.

Governments should also be actively involved in defending smallholder farmers' socioeconomic interests in global discussions and negotiations. Governments may be the only institution able to influence banks to provide medium and long-term loans to farmers' organizations.

The case studies in Chapters 3–6 showed some successful examples of lobbying. In Same, Tanzania, beekeepers pressed the local government to delineate bee reserves that would protect their property rights, prevent tree felling and prohibit spraying (page 113). In the Coast Region of Kenya, a network of farmer field schools lobbied the national Poverty Eradication Commission for support for a mango processing facility (page 79). Farmers' organizations may lobby for improvements in infrastructure such as roads, market places, telecommunications, electricity, airports and ports. They may press governments to provide basic

social services such as health and education, since these have a direct impact on the long-term sustainability and dynamism of the rural private sector. They may also push governments to avoid conflict between custom laws and “modern” regulations: legitimacy is more important than legacy. This is particularly true when addressing land tenure or natural resource management issues.

Chain engagement



Developing a vision

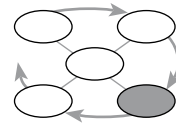
A chain facilitator supports farmers to develop a shared strategic vision on developing their value chain. The facilitator helps the farmers’ organizations do a participatory chain analysis. This looks at potential demand and supply, and the income potential for the farmers. It identifies the actors directly and indirectly involved in the chain, their role and importance, as well as their constraints and visions for developing the chain. The results of this analysis should be discussed during a multi-stakeholder chain platform meeting, where dialogue between the different actors is established. This leads to the formation of a group that takes the lead in developing the value chain. This group’s collective vision is a starting point for future interventions such as technical advice, innovations, the resolution of specific problems, or coaching of farmer leaders. Most of the cases in Chapters 3–6 show that the facilitator puts in considerable amount of time to select the appropriate actors for joint chain development. It is particularly important to identify actors that are willing to create longer-term sustainable value chains. Traders as well as producers may act opportunistically when market conditions change, so joint vision development helps them to foster longer-term engagements – as in the sugarcane example in Tanzania (page 62).

Trust

Buyers and sellers prefer to deal with those who have proved reliable in the past. Implicit contracts between buyers and sellers are a common form of agreement, and give rise to varying levels of uncertainty and transaction costs. In some cases, mistrust arose primarily because buyers or sellers opportunistically trade with others, rather than sticking to prior agreements. Mistrust also results because product quality is not standardized. In the early stages of developing value chains, intermediary organizations can play an important role to build confidence among the chain actors. Examples are the sunflower case in Tanzania (page 84) and SNV’s work to build partnerships between private-sector enterprises and honey producers in Kenya (page 75). Sometimes, though, the chain actors create their own mechanisms to build confidence, as in the Tanzania sugarcane case (page 62).

Intermediary organizations can also play a role in facilitating linkages to service providers. For example, the FFS networks in Western Kenya linked farmer organizations to service providers (page 94).

Chain development



Participatory approach and ownership

The intervention should, where practical, be participatory. It should enable less informed chain actors (such as farmers' groups) to learn how to implement new ideas and methods. The various chain actors should be able to influence decisions made in planning, experimentation, implementation and scaling up of interventions. To strengthen their ownership, service providers should adopt a policy of "no handouts" to avoid dependency syndrome and to accelerate self-reliance. In some cases, subsidies and incentives may be required for low-income farmers to enter a value chain arrangement. But recipients should be clearly informed that this is a short-term support measure that will be phased out. It is important to keep in mind that value chain development takes time, so long-term investments (more than 5 years) are needed to build chain management capacities. An example of long-term support leading to empowerment comes from the shea butter case in Mali (page 122).

Risks and savings

It is clear from all cases that farmers need to be well-organized if they are to be competitive in an ever-more-demanding marketplace. Working in value chains is often best achieved by farmers who are organized in self-selected groups of a similar age, background and wealth status (as in the milk cooperatives in Kenya, page 138). This type of organization facilitates learning and also enables group members to build trust and cohesion for collective action. The smallholders should integrate savings and internal loan schemes in their activities. This will help them work with money, keep records, and learn financial skills that are essential to build their asset base. The pineapple case in Ghana (page 34) is one of the few examples of an intermediary organization supporting the establishment of a savings scheme. Intermediary organizations should consider setting up such schemes in their intervention.

Engineering an organizational development programme

The chain facilitator promotes the development of the farmers' organization, based upon its existing capacities and on maintaining and improving the members'

Steps in developing a cooperative

- **Recognize a common need** or an opportunity.
- **Hold an organizing meeting** to explain the idea and identify the initial leadership. Be sure to ask the question, “what is the right business type”?
- **Conduct a feasibility study.** The more complicated the idea, the more thorough the study will need to be. Do not skip this step, no matter how complicated or simple the idea appears. It is necessary to determine if the business concept has a chance of succeeding.
- **Share the results from the feasibility study** with potential members. Discuss whether the concept has a chance, and decide whether to proceed.
- If you do proceed, it may be necessary to **incorporate the business** by filing the necessary paperwork. If a cooperative or association is formed, a constitution and by-laws will be needed.
- **Prepare a business plan** to provide the road map for your business. This is a vital step.
- **Secure financing:** it is not possible to start a business without some capital.
- **Recruit members.** If the business requires a certain level of production, make sure there are enough members.
- **Hire management and staff.** The board of directors should not run the day-to-day operations of the business.
- **Hold the first membership and board meetings.**
- **Start operations.**

technical skills. For existing farmers’ organizations, this may involve upgrading products and processes through a skills development programme. The facilitator may propose training, testing of innovations, improved farm practices, the introduction of new varieties, instituting quality controls, etc. Most of the cases show that intermediary organizations strengthen both the technical as well as managerial capacities of farmer organizations. Strengthening their entrepreneurial capacity is often less well developed.

When farmers are not yet organized, the facilitator may help them form groups. Groups may be informal or formal (as in a cooperative or association). In the past, governments forced farmers into cooperatives that failed to meet the farmers’ needs or to function as businesses. Despite this unfortunate history, well-functioning farmer groups, formed for the right reasons, can be an important, effective business type for farmers. A farmer cooperative or association is a business type with three unique characteristics: members own the business, members control it, and members benefit from it. At the start of an intervention, the facilitator should support the farmers’ organization by staying focused on the reason for forming the group. It should help the farmers by identifying effective local leadership that follows sound business practices. Developing trust among potential members is vital in order to improve group coherence. This is done through:

- Clear communication of member's roles and expectations.
- Clear understanding of the organizations goals.
- Ensuring that the group's business idea is likely to be feasible.
- Keeping members informed and involved. Member communication is essential. One way to do this is to designate one board member as a confidential person members can go to if they have problems.
- Conduct businesslike meetings, following an agenda.

The facilitator and group should follow a series of steps to develop a cooperative (see the box on the previous page). Some of these steps occur at the same time, while others happen later.

The facilitator should not fill in missing links in the chain itself, because this prevents other private actors from fulfilling this role. In the case of vanilla in Uganda (page 128), for example, the intermediary organization took responsibility for quality grading, transport and marketing of the vanilla. The farmer organizations are entirely dependent on the intermediary's presence, so the sustainability of this chain is undermined. The end of the project funding may mean the end of the vanilla chain.

The box below outlines a toolkit for capacity building being developed by SNV in Mali.

Toolkit for capacity building

In Mali, SNV and two unions are together developing a training and tool kit covering the following questions:

- How to diagnose my value chain environment?
- How to determine the best formal or informal structure for my business?
- How to develop my business strategic vision, from my values and principles?
- How to elaborate my outline business project?
- How to determine the optimal and critical conditions for my business?
- How to pilot market analysis and opportunity, feasibility and marketing studies?
- How to identify and control service providers?
- How to negotiate technical and financial assistance for the implementation of my business plan?
- How to manage the financing of my business plan: loans, grants, subsidies, incentives?
- How to plan my technical and financial autonomy?
- How to measure my economic performances and the social, community and environmental impacts of my business?

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Promoting entrepreneurial attitudes

A viable business begins and ends with the market. The members of a farmers' organization must be able to appreciate this: what is important is not what they want to grow, but what the market wants to buy. The facilitator should help the members learn such entrepreneurial attitudes.

Business planning is a comprehensive, responsible, research-based investigation of a business idea. It involves an organized, thoughtful process of identifying and assessing opportunities and problems inherent in a business endeavor. Proper business planning will result in the development of well-conceived strategies for dealing with business challenges. The facilitator leads the farmers' organization through this process, which results in a business plan. A number of cases show intermediary organizations that supported farmer organizations with business planning; they include the cases of jatropha in Tanzania (page 41), cashew in Mozambique (page 47), and shea nuts in Mali (page 122).

Basic questions for business planning

The facilitator initiates business planning by posing some basic questions:

Identifying the market

- Who/what is your target market?
- How big is the market?
- What does this market want?
- Is this market growing, declining, or flat?
- Who will be your competition in this market?

The product

- How can you differentiate your product? What do you need to do?
- How easy or difficult is it to produce what you want to sell?

Price

- How much will your product sell for?
- How much does it cost to produce?
- What is your break-even point?
- How many units do you have to sell every day, month and year to stay in business?

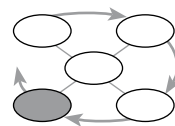
Business management

- How experienced is the person who will manage the business?
- Is this person familiar with the business?

Product distribution

- How are you going to distribute your product to reach your target market?
- How complicated will it be to get your product to your customers?

Chain monitoring and evaluation

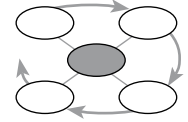


Monitoring, evaluation and impact assessment of value chain interventions are necessary to steer the intervention process, to design future interventions, and to be accountable to donors and farmers (and their organizations). It may be useful to use the indicators presented in Chapter 2 (page 30). Additional indicators may be needed to cover broader development objectives:

- **Local economic growth** Successful interventions should have a knock-on effect on the local economy as organization members earn more, have more to spend, and generate jobs within and outside the community. Possible measures of such changes include tax receipts and indicators of wealth such as ownership of items such as vehicles, televisions and modern housing.
- **Gender** In African cultures, cash crops often are seen as men's affairs – so a focus on producing marketable products may benefit men at the expense of women (and children and the elderly). To measure impacts on women, it is necessary to distinguish between men and women when collect monitoring data. For example, how many of the organization members are women? How many of the leaders? What is the income of women compared to men? etc.
- **Food security** Focusing on cash may mean that farmers have less land or time to grow food to eat. That is not a problem when yields are high and prices are good, but can lead to disaster if the cash crop fails or the market collapses. Indicators of food security may measure food supply, access and outcomes (see Frankenberger 1992).
- **Environment** A focus on markets can impact the environment in many and unexpected ways. For example, farmers may switch to a new crop or cultivation method that may damage the environment (intensive ploughing, leading to erosion, or more spraying of harmful chemicals). Processing may require fuelwood, leading to more rapid deforestation. The changes may, of course, be environmentally benign (as in a switch to organic agriculture). Facilitators should bear the potential impacts in mind and select the appropriate indicators to measure them.

The case studies show that most of the value chain development programmes lack a monitoring and evaluation system. The contribution of the interventions to poverty reduction is not measured, nor is the cost of production, value added due to improved processing, better prices or volumes traded. More attention should be paid to strengthening intermediary organizations to set up participatory monitoring and evaluation systems to measure such items, and to adjust the interventions as needed.

Chain learning and innovation



Learning from others is vital. A learning approach should build on existing skills and resources of local communities, including producers, processors and traders. The goal is to build the management capacity of chain actors and local service providers so that the community can benefit over the long term. A “chain platform” may be a forum where chain actors can exchange experience and expertise to develop mutual beneficial chains. A number of cases have shown examples of such chain platforms where multiple actors jointly carried out a chain development programme; however, there are few examples where these platforms continue without external support.

Intermediaries can provide valuable support in building the capacity of farmers’ organizations and other actors in the chain. This support includes training, coaching, group mobilization, organizational development, leadership development, etc. The intermediary can facilitate the farmers to evaluate their own capacity to manage the chain and activities in it. This analysis then forms the basis of a capacity building programme. Faida MaLi’s ten-step approach (page 178) is one example of such a programme.

A chain facilitator transfers the necessary know-how both to the farmers’ organization and to service providers. It may also transfer tools for quality control and certification. The facilitator has to be knowledgeable about value addition and stays connected to relevant knowledge sources. An important task is to create chain platforms or “farmer business schools”, where farmers continuously learn and innovate to better understand market development (pages 31 and 155).

Intermediary organizations that initiate a value-chain development process should have a market orientation; they should facilitate farmer empowerment; and they should ensure larger-scale impact as well as feasibility for resource poor farmers.

Chain facilitators should assess their own stake in the value chain. Not having a stake assures neutrality: the intermediary can organize stakeholder meetings and build trust among the chain actors, and is able to focus on broader development objectives such as transparency and pro-poor advocacy. It is crucial that the chain facilitator remains focused on strengthening the capacities of farmer organizations instead of taking over their role in the value chain.

For those intermediary organizations that need more information regarding tools and approaches for value chain development, Chapter 9 describes a number of tools that facilitators can use to strengthen the capacity of smallholder farmers to manage chains.

