

Businesses and donors embrace inclusive value chain development: Why not teaming up together?

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Key words
Shared value, inclusive value chain development, developing organizations

Creating shared value as base for new business development

Michael Porter mentioned in his Harvard Business Review article the big idea: creating shared value. How to reinvent capitalism – and unleash a wave of innovation and growth (Porter, 2011): companies must take the lead in bringing business and society back together. The principle of shared value creates wealth for the shareholders and the societal stakeholders. This concept of shared value development in food chains is the base of the research.

Problem Statement

Smallholder farmers in emerging markets have great opportunities to become a business partners in the value chain. The supply-demand dynamics in food chains are changing very rapidly. Some key drivers:

1. The growth of wealth in the developing countries and emerging markets is leading to a larger mid and high income consumer group. This group of consumers asks for quality products and is able to pay. In many countries the national demand is higher than the national production. More and more internationally operating food & beverage industry and retailers are coming in.
2. The year round global supply of some commodities is becoming more and more vulnerable. This is leading to a high volatility of prices and even a high risk of no supply. The traders and food industry is more and more interested to secure the supply by setting up a relation with small holders.
3. Development organizations are shifting form a traditional development policy based on aid towards a development policy based on trade and business partnerships. The small holders are supported to enter the commercial value chains and sell products to secure their income.

While, on the supply chain there are food losses the demand side is experiencing not only food shortages but also issues related to food safety, security etc. This situation is moving businesses and donor organizations towards smallholder farmers inclusive value chain developments. From the above developments the following questions emerge?

1. What needs to be done to make the smallholder farmers an integral part of the emerging organized, assured and profitable retail based supply chain?
2. What specific support functions should the value chain businesses in the role of chain developer or chain orchestrator and development & donor organizations display in assisting the small holder farmers to make the transition from subsistence farming towards a modern entrepreneurial farmer?
3. How can both actors collaborate more to develop inclusive value chains?

The small holder in transition

In many countries the small holder farmer is family based with very limited production facilities. The production is based on old traditional ways of production and the products are mainly used to feed the family and the surplus is sold to the local market or middle men coming by. To become a chain partner, it is by now common sense that farmers and small and medium enterprises (PMEs) for collecting and post-harvest processing should do it all by themselves but that they need financial support for critical bottlenecks, often of a public nature (infrastructure, extension services, regulations) and/or as a compensation for high level risk taking (investment in innovative, not yet tried out new farming and processing technologies) (see figure 1). Most of all they require facilitation support during

this transformation, whereby trusted third parties help them to organize, establish links, access knowledge, take initiative, strategize, develop a vision, negotiate, lobby & advocate and become self-confident and self-supportive (Visser, 2012) .

The classic facilitators to support farmers up to very recently have been the development agencies and local NGO's. They themselves went through a transition process. They initially focused on production increase through direct implementation of projects (under own management). Later they shifted to the provision of technical advice (TA) and on taking up a facilitation role, with a focus on capacity building and empowerment. They are now making efforts to support farmers integrating into the value chains (adopting the inclusive value chain development concept). Most of the agencies remain close to the farmers by choosing them as the entry point, focusing on input supply, asset strengthening, productivity increase, better farming practice, certification for fair trade transactions, providing them a push and preparing them to be ready when 'the market is coming'. Many development agencies also aim at empowerment of farmers and social inclusion (gender, minority groups) (KIT, 2006). The emphasis is on the 'push' aspect of the value chain: through increased supply and stronger farmers, the latter will be able to enter the value chain and become important actors in the chain. The key drivers are increased income and bargaining power at farmer's level. The implicit theory of change seems to be that farmers will mostly benefit by adding value at their own level, either through focusing on specific niches like fair trade or organic farming or through taking up new activities (processing, upgrading, and diversification) and by improving their bargaining skills when entering the more established value chains.

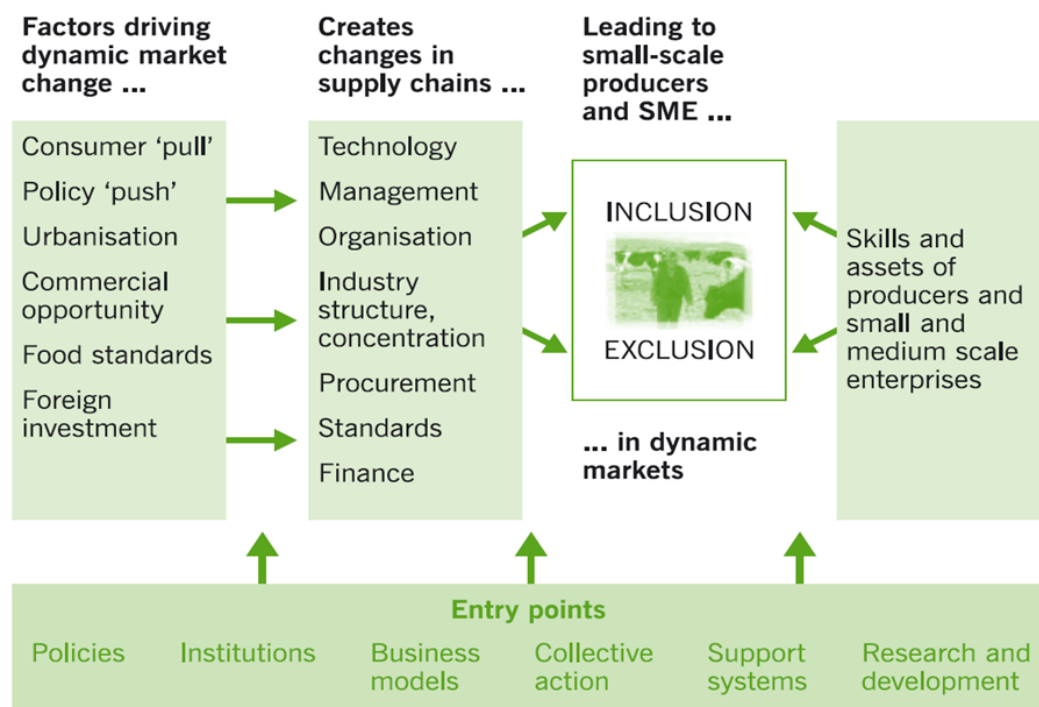


Figure 1 New orientation of farmers is needed when they enter value chains. Source: www.regoverningmarkets.org (Vermeulen, 2008).

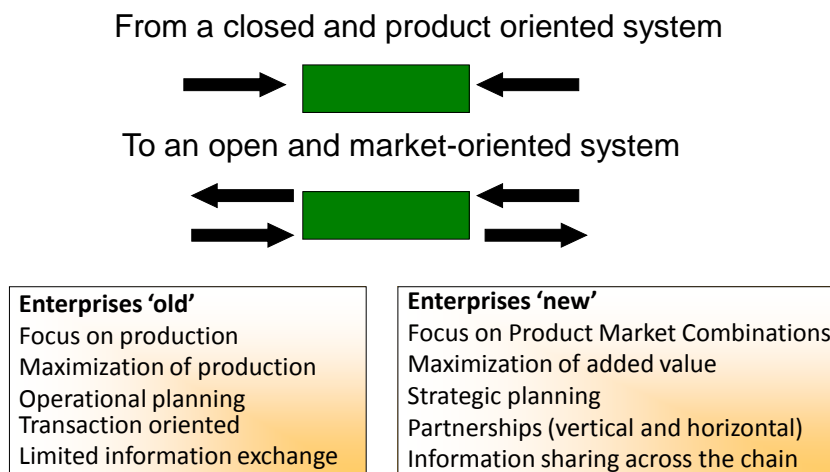
At the other end of the chain are the final buyers (retailers and consumers), who are more and more pulling the chain. Here we find the chain orchestrators with a well worked out strategy to develop and

control inclusive value chains, through far reaching up-stream integration and standard setting (quality control), often linked to certification, but also the provision of embedded services. These chain orchestrators have often a strong position in the market. They know the competition, price developments, quality requirements etc. The information asymmetry in the chain is big (Nalla, 2011). In this approach there is less room of maneuver for the farmer and the intermediary SME. He/she has to strictly follow the internal chain governance rules, being more or less reactive to what the market (chain governor) offers him/her and dictates what to do. The key drivers are business based, creation of a highly effective operating value chain, decreasing transaction costs and securing the supply chain up to the final consumer. The underlying, implicit, theory of change seems to be that farmers (and developing countries for that matter) will benefit by being an integral part of the mainstream value chain, gaining from a growth in volume being traded and more effective trade relations, cutting transaction costs and increasing margins.

Whether it is based on these very different key drivers or on ‘ordinary’ mistrust and ignorance, both worlds have a low level of mutual respect and understanding in terms of how each of them contributes to the fulfilment of the development ambitions of developing countries and their farming populations and to meeting the increased demand for food. In some cases, though, efforts are made to meet each other. Why is collaboration between development agencies and the private sector taken up so reluctantly? The development of entrepreneurship (embracing a more elaborated concept) could form one of these entry points were both worlds can meet.

This paper will tackle the issue of mutual understanding of the private companies coming up stream to the farmer and the development organizations moving into the new position of trusted parties for chain development. It will do so by developing a ‘confrontation’ matrix, getting a better insight in the mission, strategy, approach, key activities, competencies and key performance indicators of both worlds regarding the development of inclusive value chains. It is hoped that by presenting an overview of these parameters stressing the communalities and differences this will lead to a better understanding as a base for future collaboration between the private companies and development organizations.

Challenge of high quality : modern entrepreneurship on sme level



www.kelenccoach.nl

Figure 2 Farmers need new competences for entering the value chain (AKK, 1994)

Objectives of the paper

The main objective of this paper is to present an overview of key characteristics related to the ambition, role, approach and set of activities undertaken by the two types of inclusive value chain development facilitators: development organizations and private chain orchestrators. They both aim to assist farmers in entering existing or emerging value chains¹ in a sustained and structured and helping them to make the transition from subsistence farming towards market oriented farm management and entrepreneurship. A derived objective is to show that a renewed and revisited focus on farmer entrepreneurship (embracing a new concept) could form an entry point for development organizations and private chain orchestrators to find each other.

Research Questions

The major research question is: What are the differences and similarities between development organizations and private companies developing the value chain in their ambition and efforts in creating inclusive value chains with small farmers?

To answer this question the sub questions are:

1. What is their definition of inclusiveness?
2. What is the profile of a private company leading the value chain development (chain orchestrator) willing to link up with small farmers?
3. How do the different worlds see the transition process² from subsistence farmer to entrepreneurial farmer?

¹ Or (emerging) retail supply chains;

² In development jargon: what is their theory of change?

4. Which support actions do the organizations provide to the farmer(s) during the transition process and thereafter (once they are integrated in the chain)?
5. What are the key issues and values of both development approaches, where to they align and do we see commonalities and where do they diverge or 'confront' each other?

Procedures/methodologies/approaches

The research is based on a literature reviews, quantitative and qualitative research through online surveys and semi structured interviews with representatives of both worlds, the overview will be presented in a confrontation matrix and discussed with experienced representatives.

This matrix will show the differences and commonalities between the two different types of facilitators.

The literature analyses focus on the exploration of the transition process, theory of change. The survey looks at it from the development agencies point of view and from the point of view of businesses, with specific attention to 'push' and 'pull' dynamics, empowerment/power relations and how each of them sees the position of the small farmer in taking part in the value chain/supply chain.

Secondly taking the farmer at center stage, the analyze focus on what it takes to transfer the small subsistence farmer into an entrepreneurial value chain partner. What are important factors and requirements in making this happen? As a concept we will use five different types of farmers/entrepreneurs (innovators, early adopters, early majority, late majority, laggards) with different needs (Rogers, 2003). This will result in an overview of support needs from the perspective of the farmer.

Thirdly, what are the drivers and value systems of both worlds and the key characteristics related to their ambition, role, approach and set of activities undertaken by them?

Field research: The set of factors from literature under one and two is used for an empirical analysis. Based on the insights gained a setup is made for a survey for both worlds (they have different languages so we will adapt to that). The questionnaire is sent to a large group of representatives in both worlds, together a representative group of international operating donors and development agencies, private sector business investors, food industry operators and retailers, in total 100 persons (two times 50). To make sure the survey is well understood and to get more back ground information, in advance 4 interviews are conducted in each world. The results are peer reviewed through 5 Skype sessions in each world.

Based on the results of the literature and the field research the confrontation matrix is presented at the IFAMA conference 2015 and discussed. The final paper will be published in the IFAMR journal.

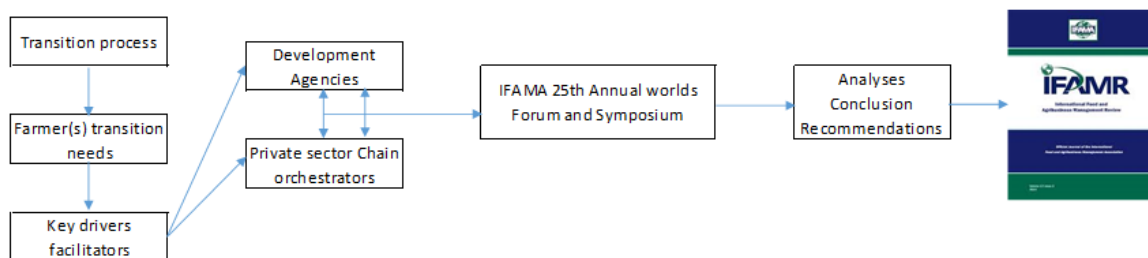


Figure 3 Research model

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The literature research is finished and 4 in depth interviews are conducted and processed. During the IFAMA conference the first results will be presented and discussed.

A survey will be implemented among the business participants of the IFAMA conference. July and August an internet survey will be fulfilled. All information will be used for an article for the IFAMAR Journal.

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