

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

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Woody Maijers, Inholland

Rem Neefjes SNV

Joselyn te Mebel and
Sebastiaan van Rijn Inholland

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The research team

Woody Maijers

Professor

Inholland University of Applied Sciences, department of agriculture
food and life sciences

Director of The Value Chain Coach consultancy

Rem Neefjes

Country Director and senior advisor SNV Netherlands Development
Organisation

Joselyn te Mebel

Personal assistant (student) Inholland University of Applied Sciences

Sebastiaan van Rijn

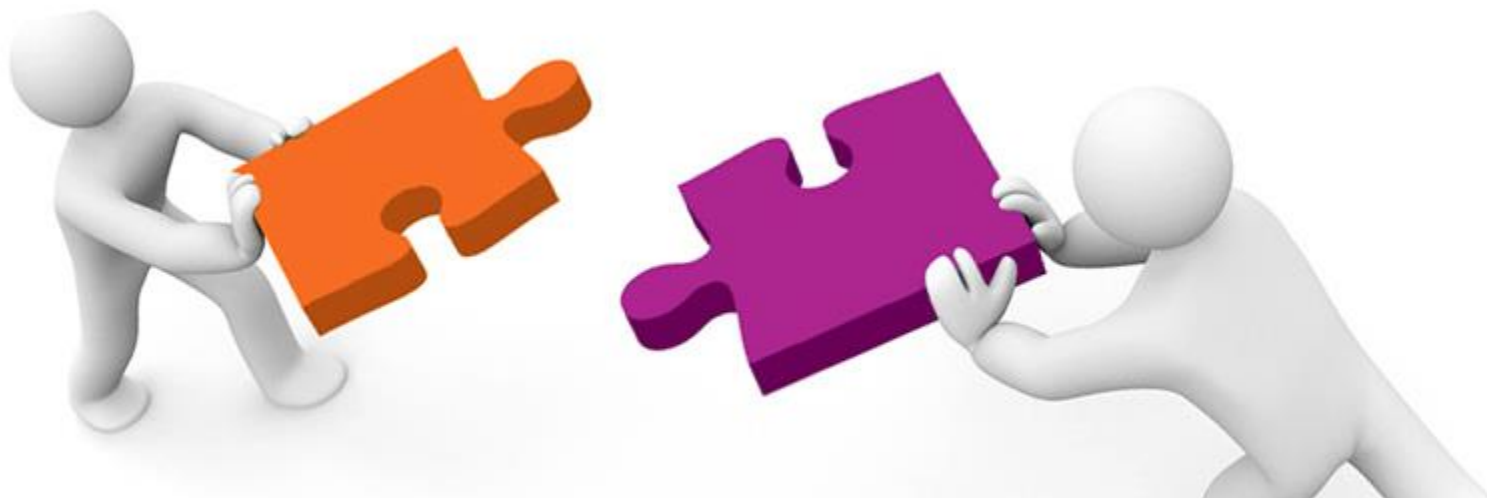
Young professional Inholland University of Applied Sciences

Attention grabber? What is the source?

- ✓ We focus for expansion on geographical areas where no NGO has operated, because the farmers and distributors are otherwise spoiled and keep their hands up.
- ✓ Profit is not the main driver. Sustainable production for the farmer and selling traceable products is our focus.
- ✓ International operating food companies have no idea how to organize 15,000 small holder farmers in Uganda for the supply. Where to start?
- ✓ We screen business partners before we trust them and link them with smallholder farmers.

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Problem Statement & Research Objectives

Different chain issues drive the business towards smallholder farmers
and

development policy shifts from aid to trade driving
NGO to support smallholders towards the market

Leading to the following
questions?



Problem Statement & Research Objectives

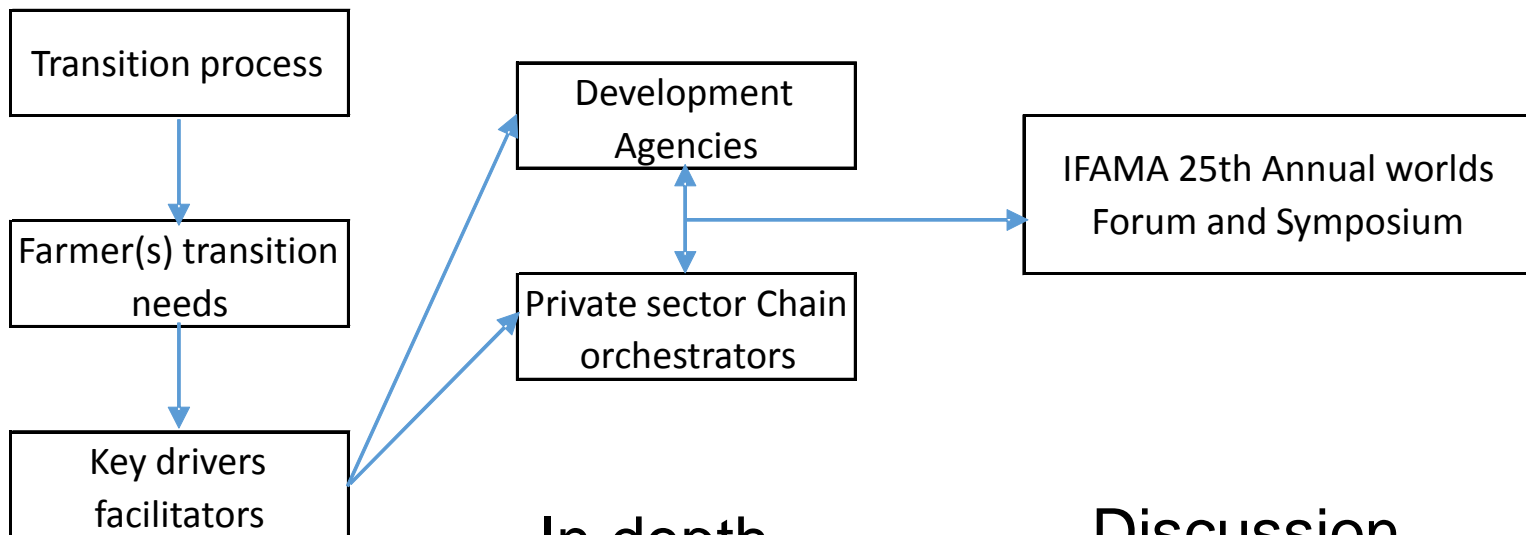
1. What needs to be done to make the smallholder farmers an integral part of the assured and retail based supply chain?
2. What specific support functions should the value chain leader in the role of chain developer display (and the same for NGO & donor organizations) in assisting the small holder farmers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

Objective

Set up of a confrontation matrix to reveal the similarities and differences to create more transparency as base for more collaboration.



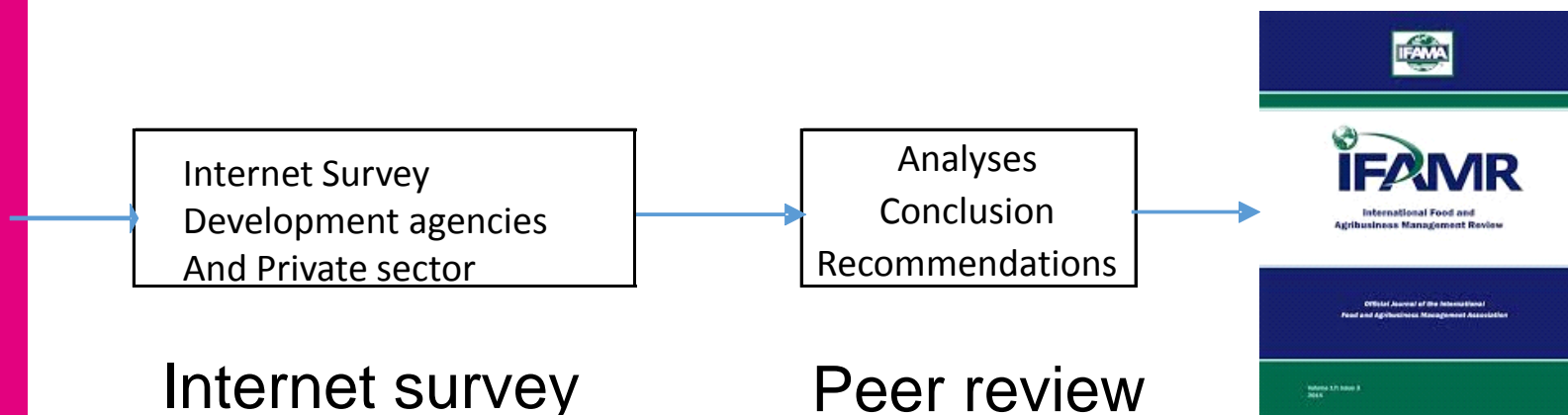
Research approach



Literature

In depth Interviews

Discussion Interviews



Literature high lights

Shared value model of Porter (2011)

1. Shift from profit (single value) to multiple values
2. Companies must take the lead in bringing business and society back together.
3. 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 our research.

Corporate Social Responsibility Creating Shared value

CSR → CSV

- › Value: doing good
- › Citizenship, philanthropy, sustainability
- › Discretionary or in response to external pressure
- › Separate from profit maximization
- › Agenda is determined by external reporting and personal preferences
- › Impact limited by corporate footprint and CSR budget

Example: Fair trade purchasing

- › Value: economic and societal benefits relative to cost
- › Joint company and community value creation
- › Integral to competing
- › Integral to profit maximization
- › Agenda is company specific and internally generated
- › Realigns the entire company budget

Example: Transforming procurement to increase quality and yield

(Porter, 2011)

New orientation of farmers is needed when they enter value chains.



Source: www.regoverningmarkets.org (Vermeulen, 2008).

What is the definition of inclusiveness?

1. The World Business Council on Sustainable Development: 'doing business with the poor in ways that benefit the poor and benefit the company'. An inclusive business strategy aims at low income communities as consumers as well as producers. In a global commodity chain multinational corporations often act as 'lead firms'.
2. The World Bank: inclusive business as 'making low income communities part of the core business of companies, as an option for significant and sustained impact on poverty'.
3. But the term 'inclusive business' is not well established; World Economic Forum (WEF), stress the importance of pro-poor business models, but do not use the concept of inclusive business.

How can small-scale farmers get high-value produce onto the shelves of retail giants?

'Ethical agents' who combine commercial expertise and an understanding of development issues can catalyse collaboration along supply chains from poor producers to large retailers (Buxton A. & B. Vorley (2012))

Challenge of high quality for retail based value chains: modern entrepreneurship on sme level

From a closed and product oriented system



To an open and market-oriented system



Enterprises 'old'

- Focus on production
- Maximization of production
- Operational planning
- Transaction oriented
- Limited information exchange

Enterprises 'new'

- Focus on PMC's
- Maximization of added value
- Strategic planning
- Partnershiping
- Information across the chain



Photo: SNV

How can small-scale farmers get high-value produce onto the shelves of retail giants?

Such agents like NGO's add value through

- Knowledge and relationships but they do not handle or own the product;
- 'Push' markets towards sustainable consumption creating a 'pull';
- Organise planning and capacity building;
- Commercial or development projects to intervene in value chains and propose new business models;
- Flexible strategies that respond to changing buyer demands and new learning at the supplier end.



Buxton A. & B. Vorley (2012)

Commercial challenges for inclusive VC

- ✓ Guaranteeing the participation (inclusiveness) of smallholders in agro-food supply chains requires reduction of transaction and coordination costs.
- ✓ Market entry is very much dependent on both internal and external economies of scale and scope (Ruben, 2006).
- ✓ Transport costs and qualification of the labour force are thus becoming key dimensions of the comparative advantage (competing chains).
- ✓ Internal economies of scale (10.000 farmers – 1 processor are normal figures) can be reinforced through decisive efforts towards the establishment of producer organisations like cooperatives.

Sustainability food business

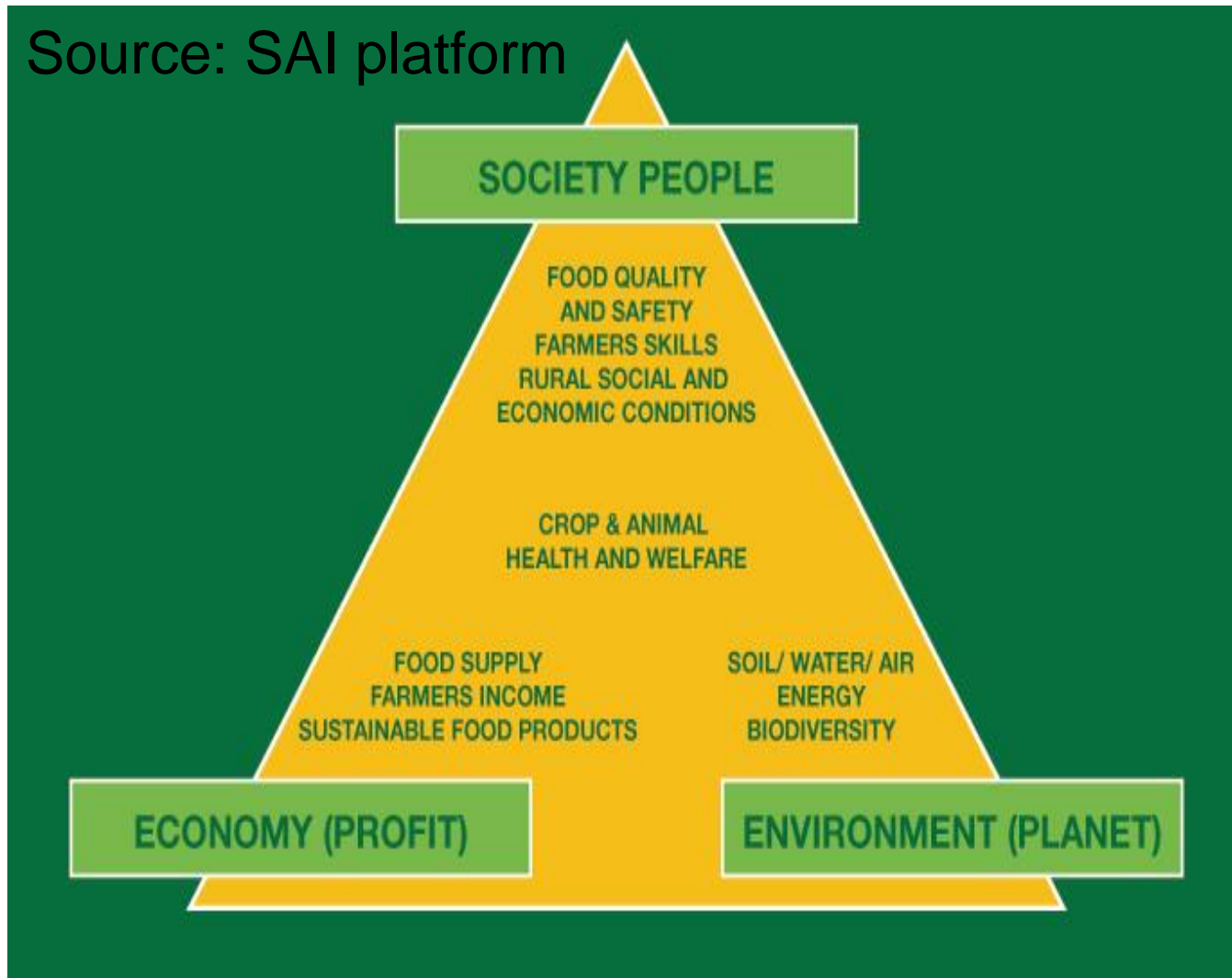
Source: SAI platform

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FAIR trade, UTZ, Rain forest Alliance Global GAP

Interviews

Overall message

- Very much interest to tell the story
- Overall message is aligned
- Need for more and better collaboration
- Too much money and time is waste in the process of inclusive value chain development



Confrontation element 1:

What is the main driver to work on inclusive VCD?

- ✓ *increased income and bargaining power at farmer's level;*
- ✓ *'push' aspect of the value chain: through increased supply and stronger farmers, prepare them to be ready when 'the market is coming';*
- ✓ up-stream integration and standard setting (quality control);
- ✓ sourcing of produce: creation of a highly effective operating value chain, decreasing transaction costs and securing the supply chain up to the final consumer;
- ✓ better tax position, access in emerging markets
- ✓ **'pull' aspect of the value chain: providing a market outlet for farmers thereby integrating them.**

Italic = NGO Straight = business **Bolt** = joined

Confrontation element 2:

What are their main values and principles?

- ✓ *Empowerment, right based approach, equity, all inclusive, attention to minorities, vulnerable;*
- ✓ *Democratic principles, participatory processes;*
- ✓ *Economic principles and gain, (market) competition;*
- ✓ **Good governance, decision making, trust, dialogue, process oriented, empowering farmers;**
- ✓ **Attention for gender, food security, soil fertility, labour conditions;**
- ✓ **Spot market, fair price setting, formal contracts, rule of law, banning free riders, transparency, accountability;**
- ✓ **Planning and action oriented, aligning farm development, production and demand, commercial mentality (business must go on).**

Confrontation element 4: What is their main vision:

- ✓ *Better livelihoods/well-being for farmers and their households;*
- ✓ **More equitable economic development, pro-poor development;**
- ✓ **Increase in overall economic development and trade**
- ✓ **Increase in Food Security (overall, worldwide);**
- ✓ **Combined economic and social development;**
- ✓ **More equitable and stable world.**



Confrontation element 4: What is the main focus:

- ✓ *productivity increase;*
- ✓ input supply;
- ✓ asset strengthening;
- ✓ decrease transaction costs;
- ✓ **better farming practice;**
- ✓ **certification for fair trade transactions;**
- ✓ **access to market information;**
- ✓ **chain governance: standards, quality, rules;**
- ✓ **embedded services;**
- ✓ **higher integration**
- ✓ **higher income;**



Confrontation element 5:
Transition from subsistence farming towards a modern entrepreneurial farmer:

- ✓ Through improvement of Technical skills set
- ✓ Through improvement of Managerial skills
- ✓ Through improvement of Financial skills
- ✓ Through improvement of Entrepreneurial skills
- ✓ Using the lead farmer (innovative) concept up scale



Confrontation element 6:

What is their entry point to start inclusive VCD:

- ✓ *Business Development Service provision / extension service*
- ✓ **Farmers and their producer organisations /coops/ unions**
- ✓ **Local business: processors, trading companies**
- ✓ **Input supply, agro dealers**
- ✓ **Financial services/ VC financing**
- ✓ **Government: access to farmers, better regulation, VC promotion, taxation**
- ✓ **Research stations more knowledge**



Confrontation element 7:

What are important features of an effective functioning inclusive VC

- ✓ **Regular and timely provision of inputs and products**
- ✓ **Clear contract arrangements**
- ✓ **Clear communication**
- ✓ **Trust relationships**
- ✓ **Fair distribution of added value among the chain actors**
- ✓ **Quality control**



Confrontation element 8:

What is key role of Private Sector:

- ✓ Create business and a markets;
- ✓ Innovation: markets, products, technology, chain structures;
- ✓ Economic development;
- ✓ Social and economic development;
- ✓ Pull farmers in the chain, upgrading VC;

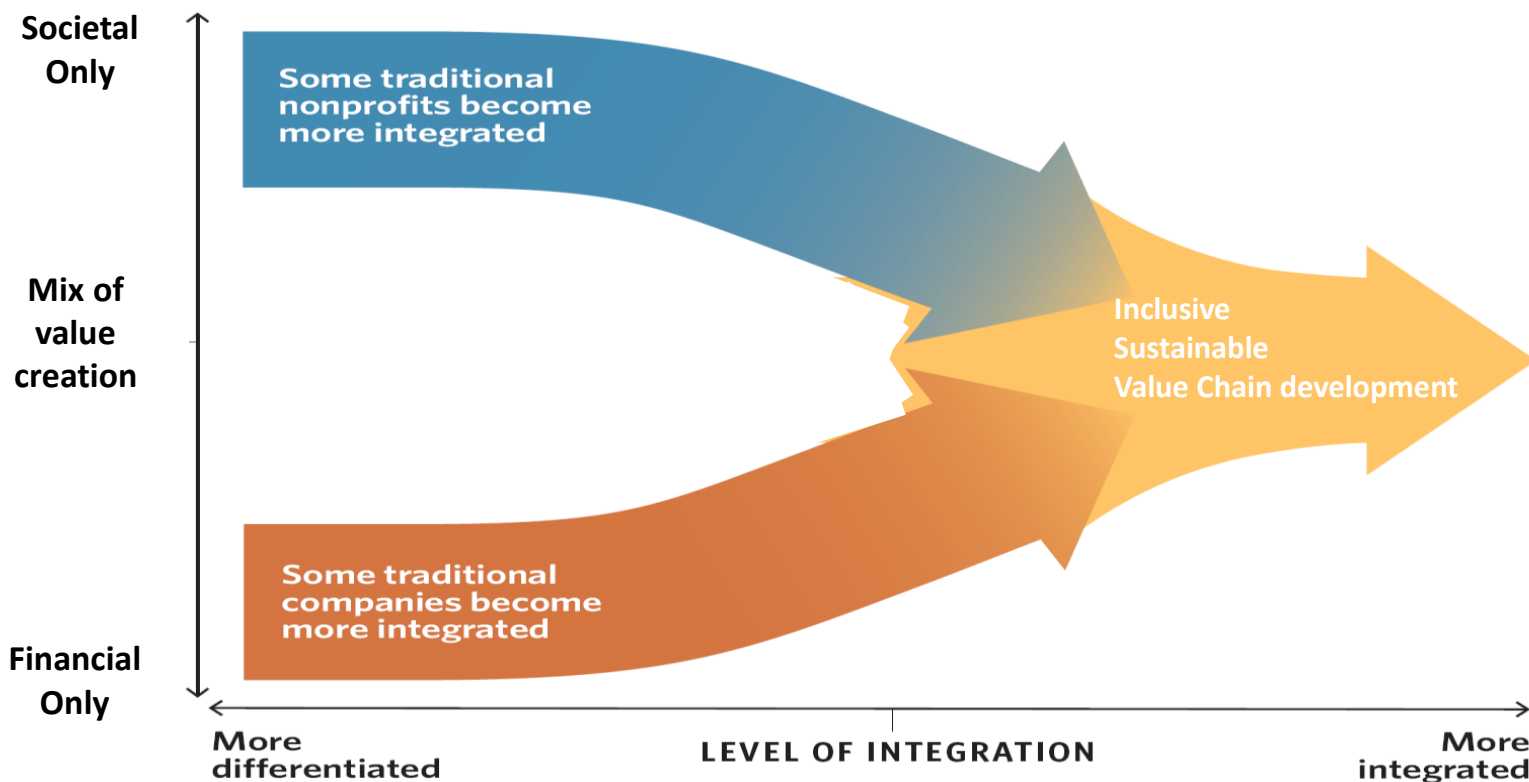
What is key role of Development organisations:

- ✓ *Reaching out to farmers, enabling scaling up of VC and upgrading;*
- ✓ *Facilitate VCD;*
- ✓ *Link farmers and business: matchmaking, B2B development;*
- ✓ *Empower farmers/equitable economic development.*

Some critical notes and mistrust issues

1. Perverse incentives in the donor system and market system will act as a big elephant in the room
2. Market pull lead development strategy instead of push by donor money.. Not everything is important. Sequence of support is important. Synchronising the projects and investments along the market needs.
3. Different time horizon: business long term <> donor/NGO 4 year programs. Different result, outcome and impact objectives.
4. Mismatch of values: in the lead should be triple P.
5. Best farmers versus all farmers
6. Challenge managing competing companies(b2b chains). Exclusiveness. Open the business model development, first mover benefits.....

Conclusion



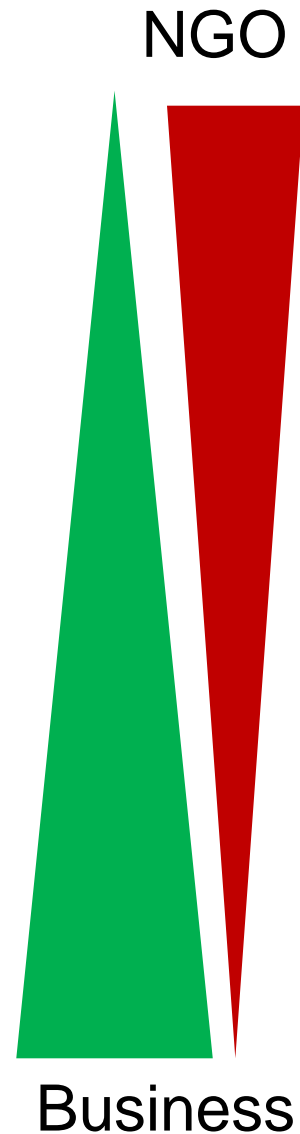
Battilana, 2012

In bringing both worlds together, a dynamic hybrid value chain development model emerges

Practical collaboration

Along the process of innovation:

1. Mapping: where to start
2. Awareness & capacity building: Preparing the right business climate and competences of farmers and public partners
3. Bulking supply flow (organising farmers, building local leadership)
4. Building trust: public private partnerships
5. Piloting: starting up high performance production (100 farmers)
6. Up scaling: setting up chain facilities, market development (1.000 - >50.000)
7. Regional scaling (geographically)



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Questions?

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Discussion

Is the inclusive value chain approach only for the best most sustainable food companies?

Is the development policy shift from aid to trade a global movement?

Is it possible the two worlds can work together?