



**BRIEFING
NOTE 31. Pro-
Poor Business
Development:
What Donors
Can and Cannot
Achieve.**

Public investments have taken us from service idea up to commercial proof of concept. Getting from a viable commercial concept to a successful investment offer is the ‘investment gap’ that needs to be filled. We believe this to be the reason why publically funded project fail to produce commercially sustained services.

The Development Experience

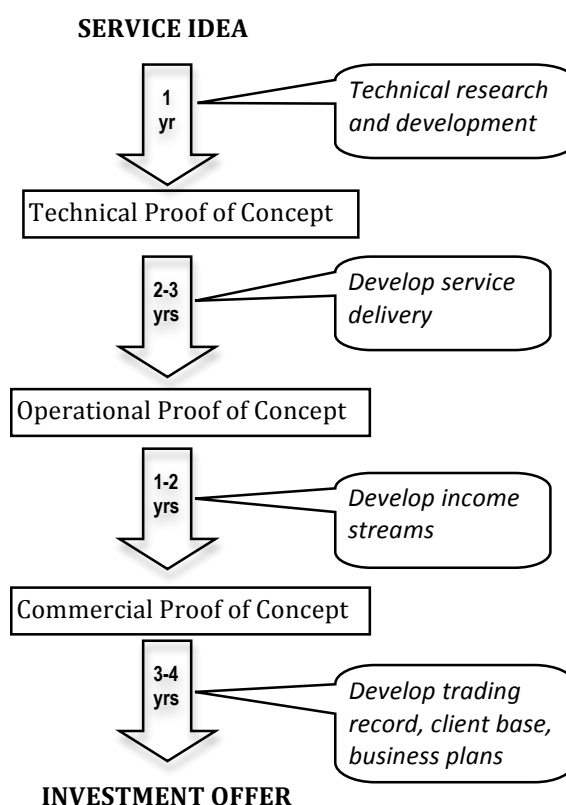
Most small farmers in East Africa lack access to reliable and relevant market intelligence as well as access to markets. Selling produce to middlemen from the farm at harvest always results in low prices. Low price is the main reason why farmers don’t produce more and stay poor. Even farmers who have benefitted from production support projects say that much of the additional production either never reaches the market or is sold at ‘give-away’ prices. Farmers are convinced that market access and not production holds back progress.

Over the last five years IFAD has invested just over two million US dollars in three projects all directed towards developing commercially viable market access services for small farmers in Kenya, Tanzania and Uganda¹. The services developed provide locally relevant market information, and facilitation of fair and secure trading in agriculture, horticulture and livestock markets. Continuous development of services is provided through a people-centred knowledge management approach called Linking Local Learners provided by RAVI (see box). Services are delivered through a network of small businesses located in main and rural markets as well as in production areas. The businesses use modern ICTs, especially mobile phones, solid-state laptops and the internet, to gather and share market information and arrange trading deals.

Our experiences suggest that developing pro-poor businesses requires a defined set of activities and milestones of achievement.

¹ IFAD grant-funded initiatives are: *The First Mile Project, using Swiss supplementary funds and implemented by Agridea in Tanzania; The Rural Knowledge Network Pilot Project for East Africa, implemented by FAO; Building Effective Commercial Rural Market Services in East Africa, implemented by Traidcraft Exchange, a UK-based charity.*

Milestones and Activities for Pro-Poor Business Development from Idea to Investment



Linking Local Learners: Business-to-business learning by commercial operations requires a balance of face-to-face interaction and online mentoring, coupled with vigorous peer-to-peer sharing of experiences. The Linking Local Learners methodology achieves peer-exchange at acceptable costs for many widely dispersed entrepreneurs as it cuts down on meetings and workshops. Online mentoring with immediate feedback of experiences into ongoing business operations results in rapid progress and creative solutions for different places. (www.linkinglearners.net)

A Pro-Poor Business Model

After five years of development a commercial model for market access has emerged. The business model is a licensed network of small rural entrepreneurs. The license offers additional income streams to existing agri-businesses such as agro-input dealerships, traders and middlemen, warehouse and transport operators as well as small farmers themselves through the sales of the following services:

- Market intelligence (sms bulletins and trade alerts, advertisements on information boards).
- Product marketing opportunities (mobile money, water tanks, etc).
- Transaction security services (commodity trade facilitation on commission).

The licensor provides the sms platform for market intelligence as well as the business-to-business learning platform for sharing new business opportunities and maintaining brand standards. To maintain their license all network members are required to share market intelligence and collaborate in trade with each other. Three license providers have been set up: AgriNet in Uganda, AgriTrade in Kenya and Rural Entrepreneurs Network in Tanzania.

Crucial to the operation of these small businesses is reliable access to ICT services. Modern communication technologies like sms, email and the internet help cut through the prevalent distrust along marketing chains and help clean up the inefficiency of marketing for small farmers. They also help to scale up business operations to commercially viable volumes.

The business model ensures that poor people benefit from business, both as clients and as entrepreneurs. Small farmers get better prices for their produce and get better access to more lucrative markets. Small farmers have an opportunity to establish and operate commercially viable business themselves.

What Public Investments Can Achieve

The last five years of public has taken a service idea for market access for small farmers and developed it into a method for delivering the services in a commercial way

that is pro-poor. Valuable lessons have been learned:

- Pro-poor market access services can be achieved through electronic market information platforms linked to SMS services and information boards at village level that enhances decision-making and improved marketing strategies for small-scale producers and traders.
- Transaction security can be provided to all players in the market chain such that their transactions are: at agreed times and locations, with agreed volumes and qualities, with payments according to agreed conditions and times, and produce are tracked and traced through the whole chain back to the producers.
- New business operations can be developed through mentoring and peer-to-peer exchange between many scattered rural small businesses.
- Networking between local business including farmer groups and local traders can contribute to increased trade as well as improved marketing efficiency and business transactions.

What Public Investments Cannot Achieve

Where market services are provided by NGOs and seconded civil servants the services stop when the project funding stops. The trouble is that such publically supported service fail to attract private investors. There are three main reasons why:

1. NON PROFIT - The private sector fails to pick up on services developed by NGOs because critical financial information, trading records, client base and entrepreneurial skills are all missing. The experienced NGO staff and civil servants from the programme are not available to the private sector. Commercial relationships with farmers and traders have not been developed. Neither is there a strong base of paying clients.

2. PILOT SIZE - Commercial success in pro-poor business depends on getting the business to a large scale. This is especially true in agricultural marketing where profit margins are necessarily small. The pro-poor business model requires that farmers get a better price per kilo and that buyers get their

produce cheaper. The business opportunity exists because marketing today is so wasteful, exploitative and corrupt. Commercial viability therefore depends on high volumes of trade and large numbers of clients. Bad news for investors who must wait while the business grows to a commercially viable scale.

3. **SUBSIDIZED SERVICES** - Success in the emergence of private commercial services depends on removing competition from subsidized public and non-profit service providers. Farmers will naturally choose free services over paid services, even if they are less efficient. Similarly, potential clients like food processors and wholesalers will exploit free services where they can. International NGOs are particularly good at attracting big buyers into their projects. Local entrepreneurs trying to set up commercial services cannot compete and grow a client base where subsidized services are offered. In the worst cases NGO's have taken over clients after learning the business from local entrepreneurs! This kind of competition not only makes it difficult to set commercially viable prices, but also drives the private sector out.

Bridging the Investment Gap

Proving a pro-poor market access business model can be commercial is not enough to secure private investors. Private investors need to see a business is commercially viable. They need to see trading records and a client base, operations at a commercial scale and business plans based on accurate figures. An investment gap exists between proving a commercial service concept and getting to a commercially viable business. Here are some ideas on how to bridge this gap are:

1. **PRIVATE-PUBLIC PARTNERSHIPS:** Equal Partnerships between the private and public sectors need to include opportunities to:

- Develop the business operations.
- Determine actual costs and test service pricing models.
- Build business plans on the basis of real incomes, real expenditures and real experiences of running the business.
- Gain experience in providing services on a commercial basis building a trading record and client base.

- Link such partnerships with capacity building for farmers, clients and entrepreneurs in the areas where commercial service are being developed.

2. **PRIVATE FINANCING:** Public donors need to think how they can use their funds to leverage private financing so that the local businesses can:

- Expand their area of operations to reach profitable volumes of trade.
- Develop the communication infrastructure for covering large-scale operational areas.
- Access credit over the three to four years it will take to get the business to profitable scale.

3. **POLICY SUPPORT:** Governments and donors need to think how their programmes to support the privatization of market access services will ensure:

- Due diligence to identify existing efforts and interests of local entrepreneurs to develop commercial services.
- Appropriate legal and tax incentives are in place to support the commercialization of services.
- Engagement with district and municipal councils, to raise awareness of the emergence of commercial services to small farmers.
- Build the capacity of farmers so that they can make use of commercial services.

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