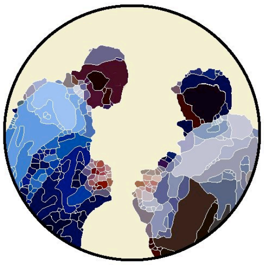

BRIEF 32. Facilitating Market Access: Potential Pitfalls for Public Programmes

Over the last five years in Kenya, Uganda and Tanzania we have been implementing a number of IFAD supported efforts in the commercialisation of market access services for small farmers[1]. A key operational feature of these efforts was Linking Local Learners (LLL) peer-to-peer learning Internet platform. The 'LLL' knowledge management tool[2] generated a great deal of learning between all the key players in the market chain. These are the farmers, traders and local private market access service providers or 'beneficiaries' of the publicly funded programmes. As with most 'hard' learning the experiences we share here emerged from failures and mistakes. Despite the failure, or maybe because of it, these experiences provided us with valuable insights into how we might better facilitate market access for small farmers. So, here we share five pitfalls we experienced that public investment programme designers and managers should be aware of. We also make some suggestions as to how they might deal with them in on-going or future programme designs.

Pitfall 1. Private sector will take up services after the public programme is over

We have learned it cannot be safely assumed that NGO or Government provided services will be automatically taken over by the private sector. Neither can it be expected for NGO staff to continue a service on a private basis. The private sector is unwilling to invest in pro-poor services based on the experiences of NGO/govt run programmes because: 1) there is no paying client base: nobody has been given an invoice to pay; 2) the commercial trading record and brand is not there: most potential clients remember the 'free' project services; 3) the human and financial assets are not there: there is no working capital financed and all the good people have been reassigned within their NGO or government department. Moreover, critical business information and operations, especially surrounding costing and pricing, are lacking. Lastly, public programmes enjoy a high level of infrastructure to provide their services like: offices, vehicles, IT equipment and finance, which cannot be leveraged by the local entrepreneur.

While in no way providing the answers, the following is suggested for programme designers and managers to include in on-going and future programmes to avoid this pitfall:

- R&D to enable the development of business opportunities beyond their technical feasibility to attain commercial proof of concept.
- Pilot test runs for establishing commercial proof of concept for then formulating business plans with figures based on real operational experience, that thereby become bankable.
- Capacity building (coaching, experiential learning) for commercial actors to have the skills to access and work with the emerging new service opportunities.
- Opportunities for commercial actors to really experience that "it works", thereby allowing them to build a track record of reliability and thereby trustworthiness in their service.

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[1] Firstmile Project implemented by AMSDP, Agridea and RAVI; Local Market Services Development Project implemented by Traidcraft, Agridea, RAVI; RKN Project implemented by FAO, AgriNet and AgriTrade, Agridea, RAVI.
[2] Linking Local Learners knowledge management tool experiences can be found at www.linkinglearners.net

Pitfall 2. Rural Entrepreneurs can readily access available business and financial services

We have learned it cannot be safely assumed that local entrepreneurs can readily access the available services such as microcredit and business development services. Access is limited because these services are largely designed in a way that they are irrelevant for most existing and potential rural entrepreneurs. Simply, the level of business skills of such entrepreneurs is too low for them to access the services being offered. Supporting entrepreneurs will require the development and testing of new services, or adaptations of existing services, that fit the level of skills and logistical requirements for trade.

The following is suggested for programme designers and managers to include in on-going and future programmes to avoid this pitfall:

- Provide ways and means for the provision of reliable communication at affordable prices for rural entrepreneurs.
- Provide financing directly or indirectly through guarantees so that local entrepreneurs can scale up their service offering to commercially viable levels.
- Provide guarantees to Micro-Finance Institutions for local entrepreneurs to build credit ratings on much needed short-term trade loans.
- R&D to develop more reliable and fast money transactions between villagers and traders in town.

Pitfall 3. Commercial relationships with clients will develop after the programme

We have learned that most rural people's experience of development programmes is to receive services free of charge. Most rural market actors (farmers, traders, processors and wholesalers) believe that any aid programme must provide its services free. This is even the case with actors otherwise operating as businessmen and –women. They will behave commercially in their private business and expect 'free' services from a donor-funded programme. The 'aid' mindset makes it impossible for commercial relationships to develop between market chain players. Farmers find it hard to understand why they should pay a commission or service fee when they know a donor is paying the NGO. Buyers, either traders or processors, are no different. When programmes finish many are reluctant to start paying the full commercial cost for a service that was once free of charge. Making this switch and developing commercial relationships takes time.

The following is suggested for programme designers and managers to include in on-going and future programmes to avoid this pitfall:

- Design interventions right from the beginning as commercial offerings, thereby avoiding a "switching over" from free service to paid service.
- Provide rural entrepreneurs with learning opportunities to think through new business ideas and designing them along commercially viable lines.
- Provide rural entrepreneurs with events and experiences that are clearly commercial and "work" for them.
- Reinforce exchange of experiences among actors along the value chains to spread the news that commercial services work and how they work.
- Provide opportunities for actors along the market chain to develop trust and commercial relationships.

Pitfall 4. Commercial viability can be reached quickly

We have learned that profit margins of pro-poor business models are necessarily low. This is not because poor people will not pay for services. Yes they have little money to spend for products and services, but they will spend when: a) the services and products make economic sense to them; and b) they can afford them. A case in point is the explosion of mobile phones even into poor rural areas. It is not only affordability that reduces margins. The promise of pro-poor market access of a fairer price to farmers reduces margins. Moreover, to be competitive buyers want their product at a lower unit price than their local agent. The reality of low profit margins for pro-poor business means that turnover has to be high for profits to be sustained. Growing a rural business to scales that are commercially viable will take time. Such rural businesses therefore need long-term credit to grow their operations.

The following is suggested for programme designers and managers to include in on-going and future programmes to avoid this pitfall:

- Provide commercial actors direct or indirect financing to grow to commercial scale as profit margins are very slim and therefore efficient scaling up is required to achieve profitable volumes.
- Support the development of efficient and effective networking and communication systems since the products are spread around in vast areas
- Build capable learning networks as business success in pro-poor services is never fast money and therefore rarely attracts private investments.

Pitfall 5. Public programmes will stimulate not stifle 'local' private enterprise

We have learned that programme supplied 'free' services stifle rather than stimulate the emergence of local private service providers. Local entrepreneurs are not stimulated to start up a business of their own they are actually squeezed out by the free or cheap subsidised services of the NGO. In the worst cases we have seen NGOs actually take over the services being offered by local entrepreneurs once they understood how they worked. In these cases collaboration pushed them out of business. Private sector development is further inhibited by 'moonlighting' civil servants operating private businesses in the same areas they are providing public services. Donors could support pro-poor business development by observing due diligence in the identification of existing private sector services and support clear distinction between private and public service provision in national policy.

The following is suggested for programme designers and managers to include in on-going and future programmes to avoid this pitfall:

- Provide protection to emerging private sector service providers from "unfair" competition by donor-subsidized NGO services that provide what a commercial company wants to provide.
- Programmes where services developed are to be sustained by the private sector should be built from the beginning along commercial lines.
- Provide more opportunities for private sector start-up efforts to be built in Private Public Partnerships, making sure that these partnerships are not designed to be misunderstood as subsidies.

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