

Summary of LBL Email Discussion on Rural Business Development Services

Edited by Ueli Scheuermeier, LBL

LBL facilitated a focused debate on “Rural Business Development Services” from October 17-31. There are 82 subscribers on the Rural Development workspace of SDC right now and out of these 7 core-debater contributed and discussed intense. The professional background (check-realities) of the core-debaters varied from research to implementation. Finally there are a number of topics which will generate further discussions¹. One is the subsidies issue, which by no means is finished. Another is the idea of searching for contracts between public and private and analysing them. A further one is the idea of doing an RBDS-business mainly based on brokering market information. And several participants point out that they would like to continue debating the middlemen/association topic. This short summary is an attempt to represent the major points during the discussion. A complete record of the discussion and background documents are available on the website <http://www.bellanet.org/sdc/ruraldev/>, which everyone is invited to visit.

The objectives of the discussion on Rural Business Development Services

1. Make a layout of the involved challenges and explore ways to move ahead.
Result: A list of shared insights that will show what a development agency like SDC can do.
2. Achieve some concrete effects in some existing efforts.
Result: Concrete plans for doing something in a number of really existing situations (so called check-realities), based on the general insights that have been gained.

1. Types of Rural Businesses

1.1 Summary

First of all we need to be clear of what we mean by "rural business". A discussion on this forum led to a "typology of rural businesses in NRM". You can find more details when surfing to our website <http://www.bellanet.org/sdc/ruraldev> and open the “Documents” feature -> Third document! In short, it differentiates among these types of “rural businesses”:

By definition, an effort is a rural business if...

- a) it can sell its services, no matter who the buyers are.....
- b) it makes enough money to eventually sustain its operations.

We found the following types:

- a) Farmer/Producer
- b) Micro-supplier: The individual village enterprise that supplies goods and or services
- c) Micro-traders: The local enterprise that bulks and/or processes local products for trading
- d) Training company for micro-enterprises
- e) Franchise company
- f) Training company for processing and marketing chains
- g) Integrated processing and marketing chain

¹ Some of the debaters continue the discussion and want to launch a task-force for helping various people set up their own efforts in the countries they work in. A Yahoo-group is launched by Ueli Scheuermeier for hosting this further debate. It is at <http://www.yahoo.com/groups/RBDS>. Anybody can join that group. It works like a mailing list (just as ruraldev) and also has a website for archiving past messages. However, for accessing the information on the above website, you need to register with Yahoo (actually is easy and costs nothing). If you wish to join that Yahoo group, just send a message to RBDS@yahoogroups.com and tell us something more about your work, and the questions you are wondering about with regard to RBDS.

- h) Share-cropping advisory company
- i) The central production, plus retail network
- k) Capacity building company for social organisation
- l) The donor agent
- m) The consultancy for donors and/or national governments.

It has to be clear, that most of these types may actually be informal enterprises....

2. Public-Private interaction

2.1 Summary

How does a public body (government or donor) enter into a partnership with a business for delivering RBDS?

There is general agreement, that for launching a RBDS effort, new ways will have to be sought than the traditional public service program. RBDS itself may need to be a commercial venture. It is clear that commercial companies and private entrepreneurs are the best approach for launching RBDS-efforts. The question still remains HOW the public and its institutions deals with them for ensuring RBDS services. There is a need to explore the possible modes of "collaboration" between public and private.

Govt. has to create an enabling environment for rural business – with tasks like giving space for business development, policy development, definition of roles and inter-linkages, making the right laws and implement them properly etc.

The public can also invest in the building of competence of RBDS-providing businesses. The procedures of GTZ for running "Public-Private-Partnerships" appear to be an interesting option for this (see <http://www.gtz.de/ppp/english/>).

The whole issue of "subsidies" closely relates to the discussion of the distribution of roles between public bodies and private commercial ventures. This discussion has been spun off into a different specialised debate....

A first set of guidelines for conceiving and designing the contractual interface between a public body (Gov/Donor) and a private enterprise for conducting RBDS has been set up, but not yet discussed in detail.

A good Story from Thomas

is 'Biocomercio' in Columbia, where the program supports private enterprise that evidently promote biodiversity through its commercial activities while generating positive impact on the environment and regional development. Biocomercio has very clear guidelines and criteria for enterprise selection and supports the selected enterprises rather holistically, helping them out with market information, business-plans, marketing, start-up finances etc. In this sense the program is much more flexible than a conventional R&D institution, driven and monitored by those donors who invest into the program. And the vulnerability problem discussed before is removed since 1) the program is linked to the government and having many different donors and 2) the problem is very transparent on why and how enterprises are subsidized. The only problem of such programs is that they are only as good as their personal running the program. If the personal works with the same conventional methods (i.e. bureaucratic administration and formality) the program might never reach the impact it could when well managed and implemented.

2.2 Practical insights for implementations

Thomas looks at the situation from his perspective from a research institution, and suggests that "R&D institutions should

- a) justify private enterprise involvement by discussing the social benefits that are generated,
- b) elaborate transparent criteria for enterprise selection and
- c) a process that guarantees that enterprises effectively reach the desired impact (e.g., defining property right issues and royalties etc. in a contract).

Carlos suggests the following for conceiving the interface between private and public in RBDS: The State or a donor (provided the State accepts), can establish alliances with NGOs in a certain region under several schemes, as follows:

- a) a mono-institutional scheme (with only one NGO): some advantages are that it can minimise costs,

facilitates internal interaction, incubator functions, easier to replicate or clone the units

- b) a decentralised multi-institutional scheme (two or more NGOs working separately): may enhance quality due to competition, but may be more expensive and units not as easy to clone or replicate
- c) a centralised multi-institutional scheme (two or more NGOs working in a coordinated fashion): may provide all the benefits of the former options, but may not be so easy to clone or replicate

The guiding principles of these alliances could be to:

- build upon existing local formal organisations that have exhibited some degree of success (Ueli's idea on "track-record")
- promote availability of services demanded (this availability can come from the RBDS or through external providers contacted by the RBDS)
- promote quality and demand orientation towards the provision of services
- the RBDS units must establish alliances or a network with successful informal service providers in the region
- the RBDS units must be cost-effective (minimise variable and fixed costs)
- a contract must be signed with terms of reference
- indicators for evaluation will be clearly spelled out
- no services will be offered for free
- the government or donor agency will provide funds to partially subsidise the demand for services (not the supply), through vouchers
- provide a small, critical mass of expertise within the unit, but depend more on capacity to contact and attract external expertise

Financing of these RBDS units can be through a combination of sources, as follows:

- a) vouchers (a direct subsidy of the State or donor to the rural clients); vouchers should not cover 100% of the cost of services
- b) direct payment of clients to RBDS unit
- c) commission over sales or profits
- d) consultancies to clients that can pay full cost, such as larger farmers, etc. These type of services will have a percentage time limit (for example not more than 30% of the time)

These suggestions haven't yet been challenged or discussed. For instance, based on the discussion so far, one would have to ask whether "NGO" can be replaced with "commercial company" or even "business cowboy" with a strong risk-oriented venture behaviour (as Rolf suggests).

A good story from Ueli

is the PPP-GTZ programme in Laos he was involved in designing: GTZ pays the company for the training of small entrepreneurs to be competent to run a small service business with solar technology (ie. the public interest in rural income generation, lighting of school-houses, skilled rural small entrepreneurs). The interest of the company is that then they could contract these trained people as franchised members of their retail- and servicing system in rural areas (ie. the private interest of increasing sales of their products).

3. How to work with subsidies

3.1 Summary

The issue was launched with Carlos pointing out the importance of subsidy policy of Donors and Govt. when discussing RBDS.

The debate has only just started in earnest. The main issue that emerges is, that there have to be very good functional reasons for a donor to subsidise an emerging RBDS. The whole problem is also closely related to a subsidy-policy for small holder farmers at large. Here too, one has to be very transparent about the public reasons for providing subsidies. The big question is how to organise the flow of public funds into the markets, in order to further the public interest. Subsidise the provision of services, or rather subsidise the demand for services? And by which mechanisms would this flow of money happen? Rupert goes on to point out that in the Agha Khan Rural Development Projects it can be shown, that the challenge hinges on whether at all it becomes possible to develop basic markets. At any rate, the debate is far from conclusive so far and will need to be dealt with further....

3.2 Practical insights for implementations

None yet

A good story from Rupert

is "The Commercialisation of BDS through an NGO: Case Study of AKRSP-Pakistan", which can be found in a publication by Muhammad Azam Roomi et.al., Aga Khan Rural Support Programme.

This case study looks at how the Aga Khan Rural Support Programme (AKRSP) has sought to encourage the development of markets for Business Development Services (BDS) in the remote areas of northern Pakistan. This paper explores that the isolation of the region, poor infrastructure, small scale of landholdings, and lack of economic development leads to problems when attempting to promote markets for business development services. In the short term, the priority is the development of more basic markets, rather than markets for business development services. Without active markets there are a few opportunities for BDS provision let alone the development of vibrant private sector markets for BDS. It specifies the geographic, economic, political, and institutional context in which the AKRSP's interventions have been implemented. Grass-roots village based initiatives have been discussed, where groups of farmers are facilitated by AKRSP to provide BDS to neighboring farmers (farmers interest groups in Chitral), along with more structured formal approaches such as the more direct provision of BDS through commercial entity associated with AKRSP (North South Seeds). It is argued that both models have a positive impact on MSME performance and lead to market development in the long run. Both are methods through which donors can promote BDS markets but which model is most appropriate depends on the market being served. Where the service offered is relatively simple and the business of the BDS provider is relatively straight-forward, facilitating private sector intermediaries may be the most effective way of creating markets for BDS. However, where the service is complex and there is a need to establish a sophisticated organisation to provide the service, it may be necessary to set up an organisation within the NGO, on commercially sustainable basis if possible, with a view to fully commercialising and ideally privatising the organisation over time.

4. How to work with middlemen

4.1 Summary

How does an RBDS-strategy deal with existing middle-men? What is the strategy an RBDS-effort should assume when middle-men are important players in the field?

- Middlemen/women definitely are rural businesses and therefore must be taken seriously.
- Reasons for dealing with middlemen: Any effort in RBDS has to work with middlemen/women. There is no way around them, as they already fulfill vital functions in the rural economy. So it's better to support them to be able to become so good, that they can bear the high risks, and thereby also be able to pay steady prices to the producers.
- Ideas for dealing with cheating and exploitative behaviour of traders (and farmers): Competition for produce of farmers, market information for all actors in the scene, a label for good trading ie. a franchise for "official intermediary".
- Does it make sense for farmers to organise themselves so that they can market their products and thereby stand up to middlemen? Past experience suggests that investing in farmer marketing associations as a strategy against middlemen isn't necessarily a good idea, and that combined support of both associations and middlemen may be an efficient RBDS-strategy. Farmer associations may have the role to stabilise minimal prices for products.
- Ideas for implementations: Capacitate middlemen and farmers to cooperate in order to exploit the potentials of markets? (This would run counter to the established belief that middlemen invariably exploit farmers to maximise profits). But what would be the impact of freely accessible market information and the role of competition among middlemen for such a suggestion? Is there room for a label on "good trading moral"? Not clear yet.....

4.2 Practical insights for implementations

Ueli pulls the discussion on middlemen together by suggesting:

- Capacitate middle men (or trading companies) through improved marketing skills and access to long distance market information, so that they can

make a higher profit, and therefore also be able to pay a better price to the producers.

- Producers must know what prices they can ask for → an information challenge, and of course a challenge of making sure alternative trading partners are available in case producers are fed up with a particular middle man.
- This amounts to a change of strategy for dealing with middlemen: Make sure middlemen (who are mostly also rural) combine their competence with that of farmers in order to exploit the potential of markets and thereby make profits for both, as opposed to trying to increase profits through exploiting the farmers.

However, Thomas suggests that the emphasis "...should rather be (...) on enhanced competition among middlemen because this is the most important condition that farmers receive good prices. Information would not help much if they cannot pick among different intermediaries or do the trading job themselves".

Thomas further suggests: "Maybe interesting would be to gather a group of interested potential middlemen (which also can be farmers) which then are capacitated and supported with information and finances but which have to sign a type of contract with the supporting institution to guarantee 'good trading moral' (prices paid to farmers, cash payments etc.). Sporadically farmers then could evaluate the different middlemen while such participatory events could be used to improve the collaboration between farmers and traders (e.g., product selection, product appearance, product packaging etc.)" Here Thomas comes back into the thinking of combining the competencies of both middlemen and farmers.

A good story from Paul

We have started a cooperation with a producer organisation in Kenya. The producer organisation consists presently of 37 people with different background. The objective of the association is facilitating better beef meat to peri-urban markets. The members are middlemen, butchers, slaughterhouse owners. The association is interested to encourage also livestock producers (in this case exclusively Maasai from the Rift Valley) or a representative to join the association with the intention to use the association as a platform for the livestock and meat chain and a clearing house in cases of conflict. So far the association acts as a broker for members, often traders, in case butchers or large scale consumers fail to pay. The livestock traders or middlemen take considerable risk in the business. Loss during transport is at their expense. In case the traders are Maasai themselves, they can not go back to their village without the payment for the cattle. In the context of the association some of the affiliated traders have gone bankrupt due to failure in payment. Without the traders the livestock chain would not work. They certainly need skill development for improved entrepreneurship. Some NGOs are offering already such training in Kenya and GTZ has developed a comprehensive set of training modules for improving entrepreneurship of such selfemployed business people.

But

the idea encouraging through projects the by-passing of established systems of middlemen in marketing agricultural produce has an ambivalent track record. A recent ex-post evaluation of one of our integrated rural development projects in the Philippines showed that all the new systems introduced by the project in marketing, credit, input supply collapsed even after twelve years and the old structures came back into business. In our newsletter "Services for Rural Development" we have the full article for those interested in obtaining more details. (<http://www.gtz.de/agriservice/>)