PLP in Strategic Alliances for Financial Services and Market Linkages Launches

Turin, Italy – On May 9-13, 2005, The SEEP Network launched its Practitioner Learning Program (PLP) in Turin, Italy. This initial “start-up” PLP round focuses on different methods to help farmers and micro and small enterprises in rural areas gain access to finance for value chain upgrading. Strategic alliances within key value chains between rural financial institutions, market development facilitators, service providers, and value chain actors may be one promising way to make this happen.

Twenty-two celebrities (our PLP partners) from around the globe gathered to share their project ideas, deepen their understanding of key technical topics, identify ways this learning network could learn from each other, and develop learning products that will benefit the broader field.

On hand were a number of special guests. Bob Fries (ACDI/VOCA), Leonard Mutesasira (MicroSave CSP), Henry Panlibuton (AFE), and Lillian Villeda (this PLP’s Learning Facilitator) shared their experiences in market research and product development, value chain assessment, rural finance and value chain finance, and formation of strategic alliances. Geoff Chalmers (USAID) and Stacey Young (USAID) also participated in the workshop and discussed their experiences in rural finance and knowledge management throughout the week.

Rural markets may never be the same after this action research project. The PLP network hopes to develop models and tools that help rural micro and small enterprises and farmers obtain greater access to finance.

Jimmy Harris Jr., SEEP Deputy Director, and Jennifer Hansel, the PLP Program Associate, were unable to comment due to their commitments preparing for the SEEP Annual General Meeting 2005. They have told the Rural Financial Times that they are looking forward to this PLP; they are eager to see collaborative learning in action and want to stay “linked” to this PLP network.

The Learning Café: Testing a Knowledge Sharing Tool

Turin, Italy – Essential to forming a learning network is identifying common areas of interest and self-instructional questions that will drive the collective learning by the participants of the PLP network.

The Café Knowledge Sharing tool was used to help shape a learning agenda by gathering all participants together to discuss their commonalities in a café-style setting, literally over coffee. At the Learning Café, participants moved among three tables, holding in-depth conversations to shape their learning agenda. Each table discussed a different question: Table 1 – What projects have similar objectives and activities?; Table 2 – What are possible learning questions that all projects could explore together and how?; and Table 3 – What information is the industry missing in regard to this topic of strategic alliances?

The purpose of the Learning Café was to develop a learning framework, or set of common questions, that this network will explore during this PLP time frame. For more information on the learning framework developed for this PLP go to the Travel Section, page 4.

To learn more about the Café Knowledge Sharing tool:
www.theworldcafe.com
Who’s Who?
Seven Projects Selected for PLP on Strategic Alliance

Washington, D.C. – After a very competitive process reviewing more than 40 applicants from around the world, the SEEP Network selected seven PLP partners for this round. Some partners are financial institutions and others are market facilitators.

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<th>Project Name</th>
<th>Description</th>
<th>PLP Partners</th>
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<td>ACCION/El Comercio (Paraguay)</td>
<td>ACCION, in cooperation with El Comercio seeks to offer financial services to small farmers in Paraguay. The main objective of forming strategic alliances with organizations providing business development services (BDS) and value chain actors is to reduce the financial and credit risk of lending to small farmers. PLP partners: Bettina Wittlinger and Silvia Mendez.</td>
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<td>American Refugee Committee (Sierra Leone)</td>
<td>The Making the Link Project will focus on building ARC’s ability to conduct in-depth value chain analysis and work with partner organizations, including rural financial institutions and commercial businesses, to adapt their financial products to address value chain weaknesses. ARC anticipates that financial products and relationships will be formed to fill the gaps or improve existing ties within selected value chains. PLP Partners: Sarah Ward and Benjamin Noballo.</td>
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<td>Caja Nor Peru</td>
<td>CNP seeks to develop strategic alliances with private sector commercial businesses that are willing to share in the risk of financing small holder farmers, enabling them to enter more competitive and formal markets. By forming strategic alliances with commercial businesses in two value chains that are export oriented, CNP wants to test if a rural financial institution can reduce its risk in financing small-scale agriculture. PLP Partners: Danilo Chavez and Cherie Tan.</td>
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<td>EDA Rural Systems Private Limited (India)</td>
<td>To increase access to finance for microenterprises and farmers, EDA will develop a practical model to enable rural financial institutions to provide appropriate financial services in a cost effective manner. EDA will act as a facilitating agency, attempting to forge or strengthen links between rural financial institutions and credit agents; between rural financial institutions and associations of microenterprises; and also between banks and value chain players, such as traders, input suppliers and processors. PLP Partners: Ashok Kumar, Sanjay Singa, Anup Singh.</td>
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<td>International Development Enterprises India (India)</td>
<td>IDEI plans to test and demonstrate an approach to address the financial constraints of the micro entrepreneurs, farmers, and service providers by building strategic alliances between rural financial institutions and other target players in value chains of the target region where IDEI operates. PLP Partners: Suresh Subramanian and Tapan Pattanayak.</td>
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<td>KENYA BDS/Resource Mobilization Centre (Kenya)</td>
<td>The &quot;Facilitating Access to Savings Mobilization Services in the Lake Victoria Fish Subsector Project” will expand a pilot activity for facilitating improved savings mobilization among fisher folk in the Lake Victoria region. The program will test the commercial viability of savings mobilization brokers and explore various techniques to bring financial institutions to “the beach” with a product offering that meets the financial needs of the fisher communities. PLP Partners: David Knopp and Peter Kivolonzi.</td>
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<td>MEDA/National Association of Business Women in Tajikistan (Tajikistan)</td>
<td>MEDA and NABW aim to promote increased incomes for farmers during the winter months through enhanced market opportunities. The goal of this project is to address value chain constraints, in particular linking farmers to suitable storage facilities and facilitating access to improved markets. A strategic alliance with NABW will encourage the development of appropriate loan products to ensure that financial constraints in the value chain are overcome. PLP Partners: Gulbahor Makhkamova and Alex Snelgrove.</td>
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Reminder: SEEP AGM, October 24–25, 2005
Q: What financial suppliers, in addition to banks, should we be looking at in rural areas, and why?

Many rural customers do not borrow from financial institutions. A study by the Inter-American Development Bank found that access to formal credit ranged from 2 per-cent of farm households in Peru, to 28 percent in Mexico. [1] The bulk of their financing came from informal lend-ers, family and friends, savings, and interested businesses. Around the world, fertilizer dealers, rice mills, traders, and exporters provide loans to secure products and increase their sales. An FAO survey[2] in Asia found that 80 percent of rice mills and 50 percent of all fruit and vegetable traders provide credit to farmers.

Q: What is value chain finance?

A value chain includes the actors who design a product, who provide or transform inputs to produce it, and who sell it to the consumer. Often, one actor along the chain finances the transaction of another, with buyers advancing cash or sellers advancing product. This is known as trader credit. Through contract farming, buyers might tie a loan to an agreement for future purchases, with the borrower agreeing to provide a product meeting specifications. Warehouses may issue receipts for crops that producers have deposited with them, receipts that are used to secure a loan. These are all forms of value chain finance. Value chain finance is promising because it recognizes existing financial services and service providers, while providing lessons on cost-effective ways to reach rural customers, screen them, structure financial products around relevant economic activities, and manage risk.

Q: In the initial “start-up” workshop, you mentioned using a financial services lens when conducting value chain analysis. What does that mean exactly?

Value chain analysis is used to map the transactions a product passes through, actor by actor. Opportunities for increasing value, and bottlenecks that limit growth, are identified in participatory discussions with this range of actors, as are commercially viable responses to these opportunities and bottlenecks. A financial lens incorporates financial transactions, opportunities and bottlenecks into the mapping and analysis of an industry. In interviews and participatory discussions with value chain actors, it is vital to find out about current financial relationships, bottlenecks, and opportunities, and to expand the list of stakeholders to include financial and non-financial institutions in a position to respond to the most pressing bottlenecks and promising opportunities.

Q: Will strategic alliances between various rural actors help increase access to finance in rural areas?

I think strategic alliances offer promise for expanding rural finance. In many cases, rural financial service providers who understand the market they are serving are designed to move products, rather than financial services. To increase their reach, they need access to the resources of formal financial services. Financial institutions offer technologies and access to funds, but lack experience and know-how in serving the rural market. This reality offers mutual benefits to value chain actors, financial institutions, and their current and potential customers.

Q: What should we keep in mind as we begin forming strategic alliances in rural areas?

Learn how to build good contracts, and I do not mean the paper work. Start with partners that are committed to the benefits and the learning that can occur through a strategic alliance. Specify the benefits for each partner. Clarify the roles and responsibilities of each party, the mechanisms for enforcing these commitments, and the mechanisms for sharing risks and rewards. Use existing marketing realities and relationships to focus on specific growthopportunities, reduce costs, manage risks, facilitate learning, and expand outreach. Through the PLP, share the lessons learned in building effective contracts and alliances.

Phnom Penh, Cambodia – In order to effectively facilitate a learning journey, it is vital to develop a learning framework that will guide the learning process. The organizing principle behind this learning framework is a set of steps that was jointly identified to facilitate access to finance for value chain upgrading.

These steps include four project milestones (see figure 1) that are the basis for peer learning and allow this PLP network to document their lessons and findings throughout this PLP time frame. As projects reach each milestone, they will explore different learning questions. The four project milestones are:

1. assessing the market;
2. forming strategic alliances;
3. implementing commercially viable solutions; and
4. developing exit or replication strategies.

One overall learning question guides the entire learning journey:

* Given the unique contextual challenges of working in rural areas, can strategic alliances between value chain actors, financial institutions, service providers, and/or market development facilitators, help deliver financial solutions and market linkages to rural micro and small enterprises, enabling them to take advantage of market opportunities?

In the upcoming months, this PLP network will focus on conducting market assessments that combine value chain analysis with the financial services lens. (For more on the financial services lens see the Featured Columnist: Ask Bob, page 3.)

This PLP will explore the following three questions related the first project milestone, market assessment:

• How does an organization apply the financial services lens to value chain analysis?

• What additional information does this analysis give program designers and implementers?

• How does an organization use the results of applying the financial services lens to value chain analysis to improve their work, from the perspective of either market development facilitators or rural financial institutions?

The next issue will report on the results of the first online discussion, which began September 12, 2005, regarding these questions.