

SYNTHESIS OF THE FIFTH VCRD DEBATE CYCLE (SEPTEMBER 2005)

The main area of the fifth debate cycle was “Embedded Services (EBS) and other services in value chain development”

Previous debate cycles: After discussing issues of ‘how to analyse value chains’ in the first VCRD cycle, and ‘how to identify interventions and leverage points’ during the second cycle, ‘donor interventions in value chains’ in the third VCRD, the fourth cycle dealt with ‘value chain development and poverty reduction’.

Starting points for this cycle: A discussion paper on services in value chain with focus on Embedded Services by David Elliot from Springfield Centre served as background. The initial statement presented three **hypotheses**, derived from the paper, which are in summary:

1. EBS are critically important. There are some sort of EBS in every value chain. Understanding EBS and other services along value chains including their real cost is useful. Donors can make EBS more visible and support enhancing EBS within VCs.
2. EBS can reach very remote poor producers. Donors support of the production and delivery of EBS to the poorest, thus, can have poverty alleviation effects.
3. Donor interventions should work on enhancing existing commercial initiatives and not establish new marketing channels, which offer fairer terms but are not sustainable.

In the background paper two case examples were presented, and during the discussion some more case examples were introduced. Since the synthesis refers to these in various places they are briefly outlined in the following:

- In Bangladesh an agrochemical company was supported in providing training beyond just its products to retailers, so that those can provide more qualified EBS to their customers.
- In Ghana external actors supported handicraft exporters in establishing embedded training services to producers to enhance the quality of the products. At a closer look the support was e.g. to develop together with the actors a quality management and grading system including criteria for good quality, and then disseminate these to the producers. In another case support consisted in developing an improved tool.
- In the handicrafts sector in West Africa one can often see two types of exporters: a) small traders who buy from producers and then retail them in trade fairs, music festivals etc. in Europe; b) formal exporters with firm orders of larger quantities from international buyers. The former take high risks as they don't know how much they sell and so they put maximum price pressure on producers. The second type has incentives to work with producers for quality to secure further orders.
- In Tanzania Jatropha is a product with high potential for the poor and the environment. Processors would be interested in expanding operations and getting more producers in. But this is a costly affair, and they are looking for partners who can help them mobilise farmers.
- Fishermen organised in a strong association are looking for an investor to help them set up their own Nile perch processing operation to get around the existing processors who operate like a cartel and dictate too low prices. Should donors support the opening of a new channel here?
- A date exporter in Iran provides embedded services like training and pre-financing to producers related to a new harvesting method which enhances quality. He gets higher prices for these dates and so thinks it worth to invest into enabling the producers to deliver the better quality.

The synthesis looks first at the discussion on what EBS are. Then it reviews the three initial hypotheses and derives new adjusted hypotheses based on the contribution. The discussion yielded a number of additional hypotheses which are presented thirdly. Each hypothesis consists of factual statements

on the left side and advice for external interventions on the right side. Finally, there is some general advice for donor strategies in support of services along VCs. In between there are some statements in italics. These are additional thoughts by the moderator/writer of the synthesis.

What are EBS?
<p>Original definition (summary):</p> <p>Embedded business services (EBS) are services packaged in or bundled around commercial transactions between a buyer and seller. They are typically not as visible or as tangible as other service delivery mechanisms (such as fee-for-service, public services, social networks or media) and have therefore received less attention.</p> <p>EBS are increasingly considered important mechanisms for access to services, particularly for the poor and in remote areas, because the limitations of other mechanisms become clear.</p>
<p>There was some discussion on what EBS are and what not:</p> <ul style="list-style-type: none"> ▪ The cost for EBS are somehow integrated in the transaction cost, and thus the user of the services (and maybe also the provider) may be little aware that the services take place and that they in fact have implicit cost. ▪ Some embedded services are fairly visible as e.g. the explicitly introduced quality production advice in the Ghana case, while others are really little visible (e.g. casual price information told to farmers by traders). ▪ Financial services (credit, pre-finance) are very often provided as embedded services, between producers and other VC actors, as well as in other links up and down the chain. ▪ EBS may appear explicitly in contracts (written or oral) between sellers and buyers as obligations of one of the contract partners, or be provided informally (as advice on planting by a seed retailer). ▪ Training and advice to producers on how to produce the adequate quality by an export company is to be considered an EBS, which may be explicitly mentioned as obligation in a contract. Quality control by the company is rather not a service to the producers, but rather to the buyer on the other end of the chain.

Current hypothesis 1 (summary): EBS are critically important. There are some sort of EBS in every value chain. Understanding EBS and other services along value chains including their real cost is helpful. Donors can make EBS more visible and support enhancing EBS within VCs.	
<p>Synthesis of views: The statements of the hypothesis are in principle correct, but not as absolutely as it reads now: Yes, EBS are very important, but they are not the only way of service provision along value chains.</p>	
New hypothesis 1: Role of EBS and other services in VCs	
<p>Services in value chains are critically important. A good part of these services come usually in the form of EBS. There are some sort of EBS in virtually every value chain.</p> <p>EBS are not just a stopgap if no other ways of service provision are feasible, but one of the options for service provision along value chains, which is suitable in some cases and not in oth-</p>	<p>When planning interventions for services, one should first identify gaps in access to necessary services and then look at different options to make the required services available and pursue the most promising one (in terms of sustainable effects towards pro-poor change). The best option will often be different for different types of services.</p>

<p>ers.</p> <p>EBS may not appear as the most desirable option, but they often are the only one with good chances for longer-term viability.</p> <p>Most buyers would prefer not to have to provide EBS to producers, but they are willing to do so if it helps their business adequately.</p>	
<p>New hypothesis 2 Service analysis as part of VC analysis</p>	
<p>Without understanding the service relations and their cost, the understanding of a VC remains incomplete.</p> <p>Making EBS and other services visible is also good to raise awareness about their importance with the involved actors, and also with policy makers.</p> <p>Importance of EBS and other services in VCs and the need for public action to enhance them should be mentioned in policy documents.</p>	<p>An analysis of EBS and other services including their real cost should be part of any value chain analysis. This allows more complete understanding of the VC and makes EBS visible.</p>

<p>Current hypothesis 2 (summary): EBS can reach very remote poor producers. Donors' support of the production and delivery of EBS to the poorest, thus, can have poverty alleviation effects.</p>	
<p>Synthesis of views: The hypothesis is basically correct, since it is formulated in a 'can' mode. But the questions is when, where and how it can.</p>	
<p>New hypothesis 3: EBS and poor producers</p>	
<p>EBS can reach very remote poor producers. Donors' support of the production and delivery of EBS to the poorest, thus, can have poverty alleviation effects.</p> <p>EBS is a possibility to make specific financial services available to producers in areas where there are no formal or micro-finance system.</p> <p>EBS are sometimes the only services ever accessible for the poor, but not automatically, particularly not in remote areas, where the cost/benefit also of EBS is often not attractive for commercial VC actors.</p> <p>Commercial VC actors will only work with poor people and in remote areas if there are no easier accessible sources of product, or if the poor and remote have a competitive advantage over others. Economies of scale and superior quality can help in this.</p>	<p>Donors can support EBS for enhanced quality and organisation of producers and other factors which enhance competitiveness of poor and remote people</p> <p>Donors can support the entry of more poor/remote producers into chains with potential through financing initial capacity building, organisation and supporting their access to entry finance.</p> <p>Donors can support procedures that allow access of poor people to services that would otherwise not be accessible for them.</p>

<p>It is often too costly for commercial chain actors to work with the poor and remote, and to get new producers into a chain.</p> <p>Agri-companies that would like to shift to contract growing may need support in setting the system up.</p>	
<p>New hypothesis 4: Work with large or small buyers/VC actors?</p>	
<p>Large lead firms tend to be more forward thinking and take longer-term perspectives while smaller businesses often are unable to take a longer-term view (as the case of the handicraft export sector in West Africa illustrates). For this reason it is often easier to work with the lead firms to achieve positive outcomes for small poor producers. On the other hand, in this way the often equally poor small businesses may get out of business.</p>	<p>Donor interventions have to carefully consider with which VC actors to work for optimally broad and deep impact on poor people and pro-poor rural growth.</p>

<p>Current hypothesis 3 (summary): Donor interventions should work on enhancing existing commercial initiatives and not establish new channels, which offer fairer terms but are not sustainable. Market intermediaries should not be considered enemies of the poor.</p>	
<p>Synthesis of views</p> <p>Overall the hypothesis is not wrong, but also not true for all situations. E.g. Fair and Organic Trade would not have happened if not external actors (though initially not donors) would have started to develop new channels.</p> <p>Further the hypothesis in its current formulation talks general VCRD interventions and is not addressing EBS and other services specifically.</p>	
<p>New hypothesis 5: Work through existing actors</p>	
<p>Market intermediaries usually provide indispensable services to producers, although they of course try to make as good profits as possible, if necessary also through unfair means.</p> <p>Externally driven interventions may displace the local actors, although e.g. fair trade and organic channels would not have developed without external interventions.</p> <p>Is it in the Nile perch case in Tanzania justified to support local actors to open a new (fair trade) channel?</p>	<p>Donor interventions should work on understanding the existing system and actors, and carefully consider possible interventions. Mostly it is preferable to work on enhancing existing commercial initiatives and market structures and not establish new channels, which offer fairer terms but are not sustainable.</p> <p>Thus, do not set up interventions which compete with existing EBS and other services, unless you are very sure about their viability and sustainability.</p> <p>Do not think that commercial VC actors are generally nasty but assume that they are willing and can be motivated and supported to improve their practices in ways that are compatible with the profitability of their business.</p>

	<p>The available actors can be supported in developing better practice and behaviour. This needs arrangements which provide incentives in the right direction.</p>
<p>New hypothesis 6: Broad-based vs. VC-based specialised services</p>	
<p>EBS in value chains are usually very specific and cover only part of the service needs of many producers.</p> <p>Providers of EBS in VCs do not have the competences for broad-based services.</p> <p>The know-how poor farmers gain from EBS in VC may or may not be applicable for other parts of the farm enterprises, depending on the type of service, but also on the way advice is given. With just instructions broader use is difficult, with real know-how and learning processes, adaptation to other areas is more likely.</p> <p>“Generic” service providers with broad competencies are unable to provide the very specialised services e.g. required in coffee, but they can be the brokers for making these services accessible in their area.</p> <p>Rural producer organisations and associations can provide and broker a broad range of required services as services embedded in membership.</p>	<p>Donors may support the establishment of broad-based or VC-based (embedded) services depending on the context, sustainability prospects, types of services etc.</p>
<p>New hypothesis 7: Alignment of motivation</p>	
<p>For useful and efficient EBS, the motivations of the user and provider need to be aligned.</p> <p>Advice given by agricultural input businesses to their customers are an example where motivations are not aligned and there are many examples which demonstrate that such advice often results in inefficient and environmentally unsound application of agrochemicals.</p> <p>Changes in arrangements can alter motivations to become aligned, e.g. with an agreement between input dealer and producer in which the payment of the input dealer is linked to the income the producer makes from his crop, instead of the quantity of product sold.</p> <p>In the case of support to better quality production by an export company, both parties benefit from the service, and their motivations are aligned.</p>	<p>Donors should preferably support EBS with aligned motivations, and if necessary look for creative arrangements to align motivations.</p>

New hypothesis 8: Why does it need external interventions regarding EBS	
<p>External interventions in VCs and related services often seem so simple and obvious that one wonders why it needs at all external interventions to stimulate ideas for improvements.</p> <p>For many VC actors getting and working together is a completely new thought.</p> <p>The changing market requirements, e.g. high quality standards, increasingly demand closer VC actor relations.</p>	<p>Donors can initiate and facilitate the getting together of VC actors, support the development of innovations and improvements, and the building of trust and the readiness to invest in each other.</p>
New hypothesis 9: Innovation	
<p>Improvements in chains require innovative ideas and solutions. Combining external and internal know-how is more likely to produce feasible ideas for improvements.</p> <p>Also the seemingly so simple EBS for quality improvements in the basket chain in Ghana at a closer look were based on innovations, as were the EBS in the date chain in Iran.</p> <p>R&D will often be necessary to find out new ways of doing things all along a value chain.</p> <p>It is not clear whether there is sufficient understanding how R&D in business matters functions.</p>	<p>Support to R&D to find helpful innovations is one of the most important tasks of donors in VCDR in general and in service mechanisms in particular.</p>
New hypothesis 10: Service provider capacity	
<p>VC actors may not have know-how and skills to provide the necessary EBS and other services.</p>	<p>External actors can support capacity building of VC actors/potential service providers to provide any EBS and other services which result in more income for the poor.</p> <p>Production of information and training materials may also be supported in this context.</p> <p><i>Remark by the moderator: Is capacity building for service providers a one-off activity or should better local capacity for capacity be built?</i></p>
New hypothesis 11: Facilitator or driver	
<p>The line between acting as a facilitator and becoming a (co-)driver is thin.</p> <p>Good change agents are needed to get things changed. If there is no local driver, external actors cannot facilitate nor co-drive. Should they stay out then or carefully build driving capacity along the chain?</p>	<p>External actors should be very careful that their actions do not undermine the development and use of VC actor capacity to drive change. Instead of co-driving and facilitating, accompaniment may be a helpful way of acting.</p>

<p>External actors may co-drive for certain roles. But don't take on driving roles which need to be performed by chain actors.</p> <p><i>Additional thought by the moderator: I have come across the concept of accompaniment in Bangladesh. It means that external actors do not drive or co-drive, but walk (or sit) beside VC actors and advise them on how to go about things. This is maybe what we are looking for.</i></p>	
<p>New hypothesis 12: PPP arrangements <i>(This hypothesis has not been discussed thoroughly and needs some further debate)</i></p>	
<p>Support to services in value chains and other VC interventions is better done in the form of PPP arrangements and not through government-government contracts. <i>Addition by the moderator: How is this compatible with the trend for budget support?</i></p> <p>PPPs can be between local government and private actors or directly between external agencies and private partners.</p> <p>PPP agreements could be a type of arrangement between which helps external actors to stay on the facilitation side of the line.</p>	<p>Donors may enter into PPP agreements with VC actors to fund the building up of (EBS and other) services which help to get poor people into the VC, or to directly fund services which are necessary only for a certain time (e.g. to expand number of producers as in the Jatropha case).</p> <p>Donors may build the capacity of local government to enter into PPP agreements with VC actors.</p> <p>Donors may also support local governments in their support of VC actors or service providers.</p>

General donor strategies to support EBS and other services along value chains

Donors should support change processes and not just problem solving.

If donors support commercial chain actors, conditions can be attached to that support to ensure that the outcome is pro-poor. The attached conditions should be such that the chances for long-term pro-poor effects are high.

Only service provision resulting in outcomes that are in the public interest should be supported with public funds.

Donor interventions should be competition-neutral, which is sometimes a tricky issue.

External actors should avoid to take up functions in the business cycle, and also not fund functions in the cycle.

Address market imperfections and withdraw when markets function.

Donors should support mobility and communication means of service providers (through access to credit for motorbikes and mobile phones).

Donors should support the establishment of information services.