PROMODEV / CTA
Briefing no. 5 on development in Haiti

Value chains finance, an economic development opportunity for Haiti

27 February 2014, Plaza Hotel, Champ de Mars, Port-au-Prince, Haiti
http://bruxellesbriefings.net / http://haitibriefings.net / www.promodev.ht

1.- Context

Agriculture is an essential tool for sustainable development and the fight against poverty (World Bank, 2008, pp.1-2). However, "financial constraints in the agricultural sector are present at every turn and they are expensive as well as unfairly distributed, which all seriously limit competitiveness for small-scale farmers."(*ibid*, p.13) Sudden and unexpected changes in food prices revealed the vulnerability of agricultural production to satisfy growing global demand and have increased investment in agriculture at all levels. The question then is how one assesses the exact amount of investments to be made, especially in a difficult environment where financial risks are causing a reduction in available resources as well as amplifying risk aversion and focusing the attention onto them. Financing agriculture via formal financial approaches or institutions has always presented difficulties and addressing these constraints cannot be satisfied with conventional measures.

Ever since its inception, the State of Haiti has been facing a number of economic challenges that remain a struggle to this day. While good governance, agriculture and education are conditions necessary for wealth creation, they remain in turn affected by economic growth providing resources to the State, generating employment at all social levels and strata, and reducing poverty among the poorest (GRAHN, 2012). However, the private sector in Haiti – including innovators, producers and employers – best bears the potential to reduce some of these socio-economic and environmental problems and to contribute to sustainable growth. Given the weakness of governance in many public institutions, it is clear the government cannot solve these challenges on its own. The private sector can "mobilize its resources, scale up and expand its scope to co-create solutions to problems at the basis of the pyramid itself, i.e. the 10 million people who live on less than 2 U.S. $ per day."(Prahalad, 2005)

The initiative to increase inclusive markets (Initiating action for the benefit of everybody: *Growing Inclusive Markets: GIM* in English) by the United Nations Development Programme (UNDP) defines inclusive companies as those that "include the poor in their value chain as consumers and producers, thereby promoting corporate, local population and environmental development" (UNDP, 2008). Keeping in mind the notion of the pyramid, the concept of inclusive business is closely related to the approach to economic recovery through the development of the value chain. This approach implies that efforts should be made to address the main constraints companies face on multiple levels in any given value chain, as well as exploit the opportunities that may arise. This includes actions such as facilitating access to improved inputs or cheaper inputs, strengthening the delivery of business and financial services, improving access to higher value markets or easier access to export permits.

The dominant theme in these two approaches (the development of the value chain and inclusive business) is improving the livelihoods of poor and marginalized communities through private sector initiatives. This can be done by promoting equal opportunities for disadvantaged people with regard to, amongst others, access to markets and financing, by building capacity and improving public policy. Inclusive businesses are important because, should they be brought to a larger scale and supported, they can help solve some of the biggest socio-economic challenges the country is facing. The PROMODEV/CTA Initiative to concentrate Briefing no.5 around the theme: **Value chains finance, an economic development opportunity for Haiti** illustrates how an inclusive business model can transform the lives of millions of citizens.

This briefing will focus on a review of the "classical approach to the development of value chains", as developed by researchers as of the mid-90s. In addition, it will describe the development of value chain approaches used in Haiti. It will discuss the similarities and differences between these approaches.

2.- What is a value chain?

A value chain is, by definition, a strategic partnership between interdependent companies that maintain a collaborative relationship so as to progressively add value to the end consumers, which translates into a collective competitive advantage.

A value chain is characterized by market-oriented cooperation: different business firms collaborate to develop and launch products and services effectively and efficiently. Value chains allow companies to meet the needs of the market by ensuring production, processing and marketing activities are in line with consumer demands.

The concept was imagined by *Michael Porter* (Harvard) in the 80s; he broke down the activity of any organization into a number of sub-activities. The company must optimize the use of its human and financial resources in order to maximize the added value it creates. To do so, it must answer a number of questions such as:

- Would making the capital work be more effective than making employees work?
- Does subcontracting allow a company to be more efficient?
- Does relocating production allow it to be more efficient?

All these issues are centred on the notion of efficiency. They may give the impression of a short or medium term perspective and that is correct.

If the company has not already identified its core competencies, it will not be able to develop them and its potential value creation will decrease with time, until eventually it tends towards zero.

Furthermore, in economic literature, a value chain or a sector can be defined as a set of products (goods or services) and producers contributing to the service of a market. These are globally organized under the auspices of lead firms governing the entire chain: they directly or indirectly specify what should be produced, where and by whom. These companies constantly arbitrate between internalization and externalization of production and between integration and disintegration space (geographically grouping certain types of production or otherwise dispersing them).

3.- Defining value chain finance

The concept of value chain finance is very broad and the term is used to describe many aspects of the approach and the tools that refer to it. An understanding of value chain finance can be transmitted in its many aspects, by many of its experts.

The movement of funds towards a value chain and between the various links that compose it are what is called *value chain finance*. In other words, it is part of or the entire financial services, products and support services in transit *towards and/or via* a value chain in order to meet the needs and constraints of the stakeholders involved in the chain, whether they be the need for access to financing, to ensuring sales, purchasing products, reducing risks and/or improving performance within the chain. Given the global aspect in financing a value chain, it is essential to fully analyse and understand the value chain in all its aspects. In this respect, the term is used with reference to forms of financing both internal and external that extend along the entire agricultural value chains that benefit:

- Internal value chain finance occurs within the value chain, where the input supplier extends credit to a farmer or when a leading company advances funds to market intermediaries.
- External value chain finance is made possible by the relationships and mechanisms of the value chain: for example, a bank grants a loan to farmers on the basis of a contract with a reliable buyer or a warrant from an approved storage facility.

Financing an agricultural value chain needs to be addressed in a broader contextual framework that is not only limited to value chains per se, but which also takes into account the economic context of each country, especially when that context has an impact on value chains and financial systems.

4.- What is the value of agricultural value chain finance?

Value chain finance creates new funding opportunities for agriculture, improves yields and funding reimbursement and strengthens the links between participants within the same chain. The opportunities offered by chain finance are more specifically influenced by context and economic model as well as the roles played by all the participants in the chain. As Campion stated (2006), finance often seems different depending on whether it is granted within the same value chain or from a financial institution.

And this difference lies not only in the nature of the funding but also the motivations. Traders, for instance, use financing as a means to stock up whereas input suppliers often use it as strategic sales support. As for financial institutions, this approach allows them to reduce the risks and costs of financial services. For all those who benefit from value chain finance, such as small-scale farmers or those who buy their products, it is a mechanism that provides funding that would not exist due to a lack of guarantees or transaction costs to secure a loan, and it is also a tool that can help to ensure a market for their products.

Understanding value chain finance can help improve the overall efficiency of all those who provide or those that require agricultural financing. This improves the quality and efficiency of agricultural financing channels by: 1) identifying funding needs, in order to strengthen the chain, 2) adapting financial products to the needs of chain participants, 3) reducing financial transaction costs through reimbursements directly discounted and the provision of financial services and 4) benefiting from the relationships within the value chain and a good knowledge of the latter in order to reduce risks to the system and its participants. Modernization of the agricultural and food sector, characterized by a greater integration and strengthening of relations of interdependence, only confirms the growing importance of the role and the need for chain value finance.

5.- Practitioners adopting the value chain development approach

In the last 5 years especially, we have seen practitioners and development organizations worldwide rapidly adopting the value chain approach. All these organizations have slightly changed the approach to suit their own goals, beliefs and local contexts. Looking closely at the wide range of users, it seems that there are two different approaches, each with a different entry point and a slightly different purpose.

5.1.- The ‘increased competitiveness’ approach

The first approach’s premise is that of a specific industry or economic sector in a developing country. The focus is on improving the competitiveness of the entire value chain, especially the part of the chain that is located in a developing country, or value chains belonging to several products produced by one sector or industry (e.g. "the mango sector" produces export fresh mango , dried mango and mango pulp, which are all different value chains downstream). The ultimate goal is to improve market share by value of a chain in one country as opposed to other countries, thus increasing revenues for the entire industry revenues. This can be done either by improving the value added produced in the country, or by increasing sales volumes.

The value added by product can be improved by relocating the processing from developed to developing countries, or seeking higher prices, i.e. by improving quality, researching different markets, etc. Increasing sales has a lot to do with marketing efforts and being competitive in the global market in terms of price and quality. The strategy’s assumption is that increased profit, via increased production and sales volumes, in addition to the value added in the country and better selling prices, will have a positive effect on the local economy, employment and thus possibly the levels of poverty. In other words, increasing the size of the cake (the turnover of the industry measured in terms of value) assumes that the individual cake slices (profits at different levels of the value chain) will also increase. Governments, major donors and organizations such as UNIDO, the World Bank and the FAO use this approach, which could be called the competitiveness approach. In this approach, the focus is often much more about the processors and exporters than on the producers and input suppliers.

5.2.- The poverty node approach

The premise of the second approach is what Navdi (2004) called a *poverty node*: a single economic stakeholder or group of economic stakeholders at the same level in the chain, which are either not integrated at all in a value chain, or have such a weak position that their incomes are very low. The ultimate goal is to improve the incomes of the poor economic stakeholders, by improving their position in the value chain. The focus is often more on the distribution of benefits in a chain than on the competitiveness of the chain as a whole. As such, it partly resembles Porter’s original concept of the value chain, which focuses on individual organization. This approach is generally dominant among NGOs in the field, and is particularly used to improve the income of small farmers. We call this approach the poverty node approach. While the competitiveness approach aims to increase the size of the cake, the poverty node approach aims to increase the share of the cake for poor and vulnerable stakeholders in the chain.

6.- Challenges

The main challenge for value chain development practitioners is to identify interventions that improve both the competitiveness of the value chain and the sector as a whole, in addition to improving the situation of the poor in the value chain. Unfortunately, researchers seem to focus more on the component of competitiveness, rather than on strategies to address uneven distribution and poor stakeholders. Literature and experience are lacking on this point, and it is therefore crucial to compare and document the different approaches that practitioners use to solve these problems.

Although producer organization is essential to improve value chain efficiency and to improve farmers' situation, it remains a challenge to build workers organizations that are functional. During the last decade, several NGOs have considered producer organizations as the solution to most farmers' problems. In fact, organizing farmers into groups remains difficult, it takes time and success is never guaranteed. Ten years can easily pass before the organization grows enough to improve the situation of its members. The situation is no different in Haiti.

The main difficulty is caused by the lack of ability, initiative and entrepreneurship, so that several unions are ineffective. Operating costs are higher than what the members are willing to pay for services, despite the coverage of most of the operational costs of scholarships offered by NGOs. This becomes more apparent during crop marketing by farmers federations. Undoubtedly, the main activities of federations consist in training, political representation and the supply of agricultural inputs, many also consider the marketing of their members' products as a central task.

7.- Haitian agriculture cannot wait

Farmers are exposed to numerous risks, including loss of soil fertility, erratic rainfall, unexpected droughts, rising input prices, lower output prices, diseases and sudden changes in demand, to name but a few. Many of these problems could be solved very efficiently if farmers were organized and if the external stakeholders helped them to be. The role of government is to establish coherent agricultural policies that encourage increased production, and legal institutions that ensure fairness and transparency by providing farmers with land rights and access to water. Stakeholders in the value chain can collaborate by initiating relevant research and creating systems for sharing knowledge and information.

8.- Briefing objectives and expected results

PROMODEV and CTA, in partnership with the Ministry of Agriculture, Natural Resources and Rural Development, embark on research and awareness in Haiti to identify key factors that can make agricultural value chains more inclusive with regards the poor, women and youth while remaining competitive.

More specifically, PROMODEV intends to:

- Replicate briefings organized by the CTA in Brussels in partnership with the European Commission, the ACP Secretariat and Concord;
- Draw attention to efforts to overcome major obstacles to the development of value chains in Haiti;
- Enhance understanding on the agricultural sector stakes in the country;
- Facilitate the dialogue process towards possible solutions to the crisis in Haiti agriculture;
- Raise awareness on the major challenges for strengthening local production;
- Increase information and expertise exchange on proven successes in the field of food security;
- Facilitate networking between development partners.

These objectives will enhance information sharing and encourage networking the key challenges of rural development in the context of EU/ACP cooperation. The meeting of February 27, 2014 is one based on a participatory approach and is part of the National Strategy for Agricultural Extension.

Expected results

Policy makers and development partners will be better informed on key issues with regards rural development that could help solve the problem of food security and agricultural research to benefit producers in Haiti. The establishment of a platform for communication and exchange in the service of stakeholders involved in rural development. The media will have a better understanding of agricultural issues, the challenges this sector faces and interventions to be undertaken to overcome these problems.

Publications

A publications, magazines and books desk will be set up on the day of the Briefing. If you have publications to provide participants with, PROMODEV will be pleased to distribute these through this display of work and achievements.

Information provided before, during and after the fourth Briefing on Haiti session will be published on the briefing blogs: http://bruxellesbriefings.net / http://haitibriefings.net and on the PROMODEV website: www.promodev.ht . A summary report and a Reader will be published after the meeting.

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AGENDA

8h30 - 9h00	Participant registration
9h00 - 9h30	**Introductory remarks**: *Michael Hailu*, *CTA Director, Raphaël Brigandi,* Political affairs and media relations / European Union delegation for Haiti; *Talot Bertrand, PROMODEV; Senator Jean Willy Jean Baptiste, Chairman of the Committee on Agriculture and Environment in the Republic's Senate, Thomas Jacques, Minister of Agriculture, Natural Resources and Rural Development (MANRRD)* ***National Anthem****: Ricardo Joseph, Environmental Governance Best Talent Competition Winner* **Special guest***: Kesner Pharel, CEO of the Croissance Group* **Honour and merit**: *Anthony Pascal (Konpè Filo), Journalist, Radio Télé Ginen* **Master of Ceremony**: *Clarens Renois*, *HPN*
9h30-9 h45	Tea break
9 h45 -11h45	**Panel 1: Development and financing of agricultural value chains: challenges and perspectives** • Investment opportunities in Agriculture, Evens Henrice from the office of*, State Secretary to Plant Production and Ministry of Agriculture, Natural Resources and Rural Development* • Opportunities to develop value chains and inclusive business in Haiti, *Philippe Bellerive*, *Economist, U.S. Agency for Development (USAID / Project WINNER)* • Producers managing financing agricultural inputs, the Value farmers, *Abner Septembre*, *Chairman of the Value Farmers' Association (VFA)* • Introducing the gender dimension in systems of value chains, *Evelyne Larrieux*, *Gender Expert, Project for Strengthening Agricultural Public Services (SAPS), from the Ministry for Agriculture.* • Instruments for risks reduction: Crop/weather Insurance, Pascal *Pecos Lundy, Chief of staff to the Secretary of State for the Agricultural Renewal of the Ministry of Agriculture* **Moderator**: *Gluck Théophile*, *Member of the Chamber of Republic Deputies* **Rapporteur**: *Larissa Marcelin, Communication Expert*
11h45 - 12h15	Lunch

12h15 - 14h45	**Panel 2: Finance instruments for agricultural value chains** • Financial incentives development, credit guarantees: procedures and methods, *Jean André Victor, Haitian Association for Environmental Law (HAEL)* • *Innovations in agricultural chain value finance. Lessons and perspectives, Ariste Sonel, FAO Operations Director* • *Understanding agricultural value chains finance in Haiti: stakes and challenges, Lionel Fleuristin, National Director for Konsèy Nasyonal Finansman Popilè (KNFP)* • Suppliers' Development Program as a viable alternative to optimize the performance of value chains in Haiti, Jameson Solomon, Coordinator for the UNDP Suppliers' Development Program (SDP) **Moderator**: *Bernard Ethéart, Chairman of FONDILAC* **Rapporteur**: *Robenson Sanon, Magik 9 / Tropic TV*
14h45 -15h45	**Summary and concluding remarks** • *Talot Bertrand*, *PROMODEV Secretary General*) ; • *Ministry of Agriculture;* • *Wesner Désir, Opinion research Director / Presenter with RTVC.*

PROMODEV, Organization committed to sustainable development in Haiti