

Harnessing the private sector for pro-poor agricultural growth (3 cases)

Intervention:	Business-Focused Challenge Funds: the Business Linkages Challenge Fund (BLCF); and the Financial Deepening Challenge Fund (FDCF)
Country:	About 20 countries, most in Africa
Date:	In operation since 2000
Challenge:	To harness private sector resources in ways that generate high levels of pro-poor economic growth
Objectives:	<p>(1) Set up a cost-sharing grant scheme with competitive bidding, grants being allocated to profit-seeking projects that best meet the challenge funds criteria and objectives.</p> <p>(2) BLCF supports the formation of business linkages by enterprises in developing countries with each other and/or with international partners. These linkages must bring enhanced competitiveness and generate clear benefits for the poor. Projects must increase access to markets, transfer technology, improve competitiveness, or address the policy and regulatory environment for business.</p> <p>(3) FDCF encourages banks and other private firms to develop innovative and commercially viable financial services that benefit the poor.</p>
Approach of the Intervention:	<p>BLCF and FDCF each offer grants from £50,000 to £1,000,000 for competitively-selected projects.</p> <p>In the case of FDCF, DFID established a fund of £15 million. AS number of funding rounds were sponsored. By 2004, 28 projects had been funded, leveraging £56 million of applicant resources.</p> <p>BLCF: 8 out of 26 projects linked to agriculture.</p> <p>The case studies below illustrate the challenge funds approach.</p>
Lessons learned:	<p>Typically, the organizers of challenge funds widely publicize the funds' existence and then sit back and wait for applications. The FDCF found that:</p> <ul style="list-style-type: none"> □ This approach tended to attract interest from organizations familiar to DFID and other donors, rather than new players; □ Many poor, unimaginative applications were received; processing these wasted management time; □ As bidding rounds proceeded, and given the relatively confined target market in any country, enquiries tended to come from organizations involved in earlier bidding rounds and often duplicated previously successful propositions. <p>Also, because the FDCF was a centrally-managed fund, run from DFID London, there was little engagement with country offices. Consequently, the initiatives funded were not necessarily consistent with DFID country strategy, and did not build on, or add value to existing DFID interventions in the country in question.</p> <p>Source: <i>FDCF: Assessing its Achievements and Possible Future Directions</i>, March 2004 (posted on website)</p>
Contact person:	Details at www.challengefunds.org

BLCF Case 1: Improving the competitiveness of small-scale organic cocoa production in

Dominican Republic

The Business Linkages Challenge Fund (BLCF) supports private sector partnerships that promote commercial benefits to participating business enterprises and help to reduce poverty in target developing countries. Companies can apply for grants between £50,000 and £1 million that increase access to markets, transfer technology, improve competitiveness, or address the policy and regulatory environment for business.

Project Start Date: November 2002

Project End Date: November 2004

Country: Dominican Republic

Project Description: Organic Chocolate Production

BLCF Grant: £189,000

Private Sector Contribution: £225,000

Background

The international cocoa market has always been influenced by significant price fluctuations that directly affect the price growers get in the Dominican Republic. In recent years, the world market price did not reach a “fair” level. A “fair” price, calculated by the Fair Labeling Organization, covers the production costs and provides the small growers a modest profit. In the Dominican Republic the cost of living for cocoa growers is relatively high compared with African growers. Therefore since its conception, the Dominican Republic’s Small Cocoa Growers Association, CONACADO, has strived to find market niches such as the organic cocoa market to guarantee a reasonable price level to its members, and consequently protect them against the direct impact of the international market price fluctuations. At the same time, large producers of high-quality cocoa, such as Barry Callebaut face the challenge of having a constant supply of quality cocoa beans. In 2002, CONACADO approached BLCF to investigate the feasibility of funding unique market niches that would promote the commercial interests of small growers.

Project Objectives

- Develop a sustainable market for CONACADO small growers
- Produce raw organic cocoa beans of superior quality for Barry Callebaut
- Increase competitiveness of CONACADO and Barry Callebaut in the organic cocoa sector
- Develop the necessary incentives to motivate growers to focus on the quality of cocoa
- Share the knowledge gathered through the project with all CONACADO organic cocoa growers to increase production

Approach

This project was driven by private sector demand. It showed a disequilibrium in the organic cocoa market, which could be resolved by:

- sourcing cocoa from another country with a consequent reduction in prices; or
- encouraging partners to work together through BLCF to respond better to organic cocoa production requirements.

The second option was chosen. A pilot program was launched in two out of the nine cocoa-producing regions of CONACADO. A comprehensive two-year plan was put in place to implement the project.

The Three Measures of Success

The BLCF has three overriding measures of success.

Business Linkages: at least one clear linkage must be established through the life of the project.

Market Development: the project must develop an existing market, or create new markets.

Pro-Poor Impact: the project must have a significant positive impact on lower income groups.

With these three criteria in mind, what did the CONACADO project achieve?

Business Linkages

Stronger relationships down the supply chain have been achieved. Barry Callebaut is now a long-term partner of CONACADO and is able to supply quality organic cocoa periodically. Furthermore, the milestone of producing 500 tons in the 'gourmet' chocolate market has been surpassed with CONACADO supplying 700 tons. This has allowed the organization to establish new linkages with other European cocoa buyers such as ICAM and CTM Altrmercato of Italy, and Twin Trading of the UK.

Market Development

This project has allowed CONACADO to improve the quality of cocoa produced. This in turn has developed:

- The market for new types of 'gourmet' cocoa—CONACADO is the sole supplier of quality cocoa beans to an Italian entrepreneur for their direct retail business.
- Better quality of cocoa wine and jam produced as a by-product by the small-grower women's group.
- A formal transport system for cocoa beans has been established, thus creating more employment for truck drivers.

Poverty Impact

The biggest impact of this project has been on poverty. Working with small growers and, in particular, choosing the poorest production regions (Yamasá and El Castillo) has improved rural livelihoods. The main achievements include:

- A differential of US\$405/ton (US\$145 over the milestone) is now paid to small growers.
- 1,225 farmers (well over the 350 milestone) are now producing superior organic cocoa.
- Women now contribute to the drying stage of the process and this generated a 25% increase in employment.
- Computer technology has been upgraded at CONACADO and remote communities have been linked to the internet.
- The broader community—beyond the cocoa growers—now has increased purchasing power.

Lessons Learned

Private sector funds can definitely be leveraged for pro-poor growth. BLCF contributed 45% of the funding with the rest coming from CONACADO and Barry Callebaut. Making them part risk-takers in the project with mutually beneficial commercial objectives allowed building in measurement criteria that would have otherwise been obliterated. Structuring the implementation was key. CONACADO's choice of regions was based on (1) having a strong leader and (2) the level of poverty. Yamasá was one of the regions chosen because it had a very strong leader who could implement change. Furthermore, the region was CONACADO's 'ugly duckling', (including low capital investment, low income levels, and poor cocoa quality). This was a great opportunity to turn things around and other regions have followed suit. A strong lead partner is pivotal to project success. CONACADO has put the resources and enthusiasm behind this project, making it a success.

Partners: Confederación Nacional de Cacaocultores Dominicanos (CONACADO); and Barry Callebaut Sourcing, AG.

Contacts: BLCF Website: www.businesslinkageschallengefund.org
CONACADO Website: www.conacado.com

BLCF Case 2: Mobile banking for rural communities in Kenya

Intervention:	Technology and Innovation for Profitable Banking in Rural Communities (FDCF)
Country:	Kenya
Date:	
Challenge:	To launch mobile banks, providing rural clients with daily access to financial services.
Objectives:	Sign up 12,000 new rural customers in 18 months, 40% of these being women
Approach of the Intervention:	Equity Bank invested GBP 277,550 of its own funds to develop the business model and received GBP 172,600 from DFID's Financial Deepening Challenge Fund, as well as support from DFID Kenya. Equity was transformed from a building society to a commercial bank, enabling it to offer a broader range of services—including mobile banks—to a larger group of clients. The minimum deposit for new accounts was reduced to GBP 3; and ledger fees and other charges were either scrapped or reduced to low levels.
Benefits and Impacts:	By the end of project implementation, the mobile service had reached 30 village centres and served 23,055 new customers, 45% of whom were women. Between them, customers served by mobile branches have deposited GBP 650,000 and have secured 9,000 loans from the bank worth GBP 807,000. Equity reduced transaction time in the bank from 10 to 2 minutes and there have been substantial savings to customers from reduced travel costs. The innovation has helped smooth consumption for rural families by providing finance for school fees and emergency loans. Introduction of new software will facilitate transmittal of remittances from abroad and from urban to rural areas.
Lessons learned:	Mobile banking services can help to ease liquidity constraints and smooth consumption for a large range of rural clients
Wider application:	
Implementing agency & partners	Equity Bank; FDCF; DFID Kenya
Contact person:	Details at www.challengefunds.org

BLCF Case 3: Regenerating the smallholder cotton sector in Malawi

Intervention:	Cotton Seed Treatment Programme (BLCF)
Country:	Malawi
Date:	September 2003 to August 2006
Challenge:	To improve the quality and the yield of Malawi's cotton crop.
Objectives:	(1) Promote a three-fold increase in cotton smallholders' average income. (2) Double the number of smallholders registered with the program. (3) Increase the capacity utilization of ginneries.
Approach of the Intervention:	For many years before this intervention the smallholder cotton sector in Malawi had been in decline, reaching a low of 16,000 tonnes in 2002, with poor yields, badly managed advisory services, and limited access to key inputs. The two largest private sector companies engaged in cotton ginning, Great Lakes and Clark, joined forces with chemical production and marketing companies and the National Association of Smallholder Farmers to improve the quality and availability of pre-treated seeds. The seeds, together with other inputs, are sold to pre-registered farmers who contract to sell their cotton at fixed prices to the participating ginners. Treated seeds are sold to registered smallholders at less than the market rate. The difference between the commercial price and the subsidized price of the seed is recovered through an end-of-season levy charged by the ginners. The wedge between the commercial price of seed and the subsidized price is reduced progressively over several seasons.
Benefits and Impacts:	Production increased from 16,000 tonnes in 2003 to 43,000 tonnes in 2004, largely attributable to the project. During project implementation the number of casual labourers employed increased from 10,000 to 35,000. The number of smallholders registered with the programme increased from 100,000 to 180,000. Capacity utilization at ginneries increased from 20% to 80%. Producer incomes increased two to three times.
Lessons learned:	<ul style="list-style-type: none"> □ The challenge fund approach is a sound way to leverage private sector investment for poverty-alleviating and productivity-enhancing projects. □ In order to reduce free-riding by unregulated third-party cotton buyers it is important to reduce the subsidy element in the price of treated seed.
Wider application:	
Implementing agency & partners	Great Lake Cotton Company; Clark Cotton Malawi; Chemical and Marketing Company; Syngenta, AG; NASFAM; DFID BLCF
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