Beyond microfinance: Developing value chains and income

Moderator

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Speakers

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Executive summary

This mini-conference allowed us to discover two models of value chain creation, one in India and the other in Ghana. In both cases, networks of small producers were created, strengthening their negotiating power.

These small producers are trained to improve the quality of their products. Market transparency is improved by access to extensive information, particularly on prices. Producer networks are put into touch with international buyers, or even relieved of commercial risk when the organization buys their products. Finally, they are offered suitable microfinance products. The efficiency of the system lies in the synergy among all the instruments used.
Vipin Sharma explained that, in India, 93% of the population works in the informal sector, without any form of social insurance, with 37% working outside of the agricultural sector. These people are often unattached persons, manual workers, poorly informed, with no negotiation power and little mobility, which means that they are limited to local markets. For them, as for farmers, creation of value stops at their doors. Therefore, it is necessary to create value chains that include them. They are the typical candidates for microcredits. However, microfinance alone is not sufficient. Many additional services are necessary. ACCESS has thus created a label, “Ode to Earth”, based on non-abusive use of renewable natural resources, with an added value. ACCESS does the market analysis, offers assistance in product development, plays an intermediary role by buying from the producers – thus assuming the risk on their behalf –, and finally ACCESS takes care of the packaging. ACCESS also provides the required initial capital. Ode to Earth now groups 75,000 producers, including NGOs. An annual fair takes place in autumn and two retail stores have opened, one of which is in Delhi.

Ode to Earth today faces a number of challenges. Particularly, the structure is supposed to become financially autonomous, but there is doubt as to whether the producers will be able to pay for their “subscription”. In addition, there is a risk that co-investment by producers in Ode to Earth may slow down its development, all the more so as quality issues are due to producers’ poverty. Ode to Earth raises the question of working capital and remains positioned in niche markets, which excludes large-scale production.

François Durollet and Ivana Damjanov presented a shea nut project in Ghana, in cooperation with SAP and the European Union. In general, shea nuts are gathered locally by women (especially 600,000 in northern Ghana who live below the poverty threshold) and processed abroad (mostly in northern Europe) into derivative products. Locally, the added value contributed by the women’s work comes from a range of activities: picking from trees growing in the savannah, drying, bagging, storage, and sometimes the transformation of nuts into shea butter. The women doing this work have no negotiating power and no collective organization. They sell to intermediaries who raise the price all along the chain, but add no value to it. The project consisted essentially of eliminating intermediaries, establishing market transparency (thanks to a price information program specially designed by SAP), improving the quality of nuts and their drying, educating on sustainable development, creating appropriate financial products and networks of women producers, and establishing direct contacts between producers and international buyers (particularly for cosmetic products).

The three keys of the mechanism are ICTs, education, and microfinance. The network encompasses 1,500 people with the objective of reaching 4,500. A Stanford study shows that improvement of product quality and market transparency resulted in a 30% increase in women’s income. To increase value creation in the long run, emphasis must be placed on the production and trade of shea butter.

PlaNet Finance and SAP have decided to prolong their partnership and develop a social business around this project to ensure its sustainability.