

## SYNTHESIS OF THE SIXTH VCRD DEBATE CYCLE (NOVEMBER 2005)

*The main area of the sixth debate cycle was 'Enabling Business Environment for supporting Value Chain Development'*

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**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 and 'value chain development and poverty reduction' in the fourth cycle, the fifth cycle dealt with "Embedded Services (EBS) and other services in value chain development".

**Starting point for this cycle:** During all previous cycles we concentrated on the role and intervention possibilities development agencies can assimilate when working directly with value chain actors or value chain supporters<sup>1</sup>. The influence or possible roles development agencies can have regarding value chain influencers were not addressed so far. This is the main reason for initiating a debate cycle about actors who can influence the framework conditions for value chain development and possible interactions with development agencies.

**An 'enabling business environment'.** For a basic understanding some quotes and graphs were introduced at the beginning of the cycle. Please find them in annex B of this synthesis.

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Three sets of lead questions introduced at the start of the cycle were answered and further developed in different ways. Please find a synthesis of all contributions regarding a specific set of questions and a final summary at the end of this synthesis.

### **Lead questions regarding the 'Level of intervention' (Where to intervene?)**

*Should development agencies intervene directly at the policy levels? Or should they rather support and enable local companies and social organisations for intervening in national policy matters?*

#### **Summary**

Depending on the situation and the main problems a value chain is facing, a development agency can intervene at any level. It is even advisable to intervene at all possible levels, depending on the strength and plausible influence of a donor agency.

Development agencies have different options to intervene at the policy level:

- In a direct dialogue with local, regional and national policy makers. Using their influence, technical and financial services for supporting the government entities. And therefore enable policy makers and civil servants to manage change in local, regional and national policies and administration.
- Enabling local actors for lobbying activities at the policy level. Considering the short life of politics and development projects, a promising way is to facilitate the development (capacity building) of local actors so they can lobby at the policy level through the local government or civil society organisations (chambers of commerce or commodity associations, for example).
- Support the policy process at the decentralised level. Decentralised governments play often a crucial role in collaborating with the private sector and establishing conducive business environments. For a donor this means to support both public and private actors of a specific local economy. This also assures that the policy is based on regional (decentralised) characteristics and favours locally important businesses and value chains.

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<sup>1</sup> Please find a graphic about value chain actors and supporters in Annex A.

### **Lead questions regarding 'Key issues for interventions' (What kinds of interventions?)**

*Are there key issues, donors should always consider when intervening, i.e. collaborating with national or decentralised governments, in business policy matters?*

#### **Summary**

Do not intervene without assessing the local business constraints. Donor interventions have the potential to disturb local markets and destroy viable businesses, due to unfair competition or unsustainable funding mechanisms. An understanding of the existing markets is central before planning any intervention.

Conducive policies should be based on regional characteristics. Donors should try to influence both public and private actors to define regional relevant policies. The private sector often needs support, information and facilitation for articulating their demands. Local governments often need technical assistance in order to offer a demand-oriented and efficient service to rural entrepreneurs (for example one-stop shops).

Make concrete evidence from project experiences available. Small field-level projects have shown a pivotal role in the formulation of agricultural policy. Through close contact with decision-makers, policy dialogue and their 'objective' role, even small projects can have a direct impact on policies.

Awareness building on policy level and trust building between SMEs and governmental agencies, as well as between VC actors (producers and traders), are crucial contributions accepted from 'neutral' outsiders, i.e. donors.

### **Lead questions regarding 'Key themes for interventions' (How to intervene?)**

*Are there key themes, donors should try to focus when trying to improve the enabling business environment? Should donors concentrate on enhancing opportunities for the rural micro- and small business community? Or rather enhance a focus on value chain development?*

#### **Summary**

Bureaucracy can be a business killer. Donors can support local and national governments in improving the business oriented services. Donors can facilitate change management in policy making and public services / administration by supporting the emergence of (a) sustainable organisation structures and (b) appropriate management procedures and tools.

Support private sector actors to define their needs and demands towards their representations at the policy level, and support the latter in intervening with the national government.

Support the establishment of, and access to, adequate and up-to-date business information for rural businesses.

Provide start-up advice and financing for commercially oriented rural business service providers. For example equip new ventures with seed money, access to information and capacity building. The company itself will engage in policy matters if the financial or social gain is higher than the intervention costs.

The lack of appropriate financial services for young or new rural businesses could be addressed with rural venture capital funds. For establishing such funds, countries like Nepal need to establish specific policies. The donor could support (a) the establishment and some initial financial means for the fund; (b) support the local government in making policies more conducive in this matter; and (c) provide start-up advice.

A donor can initially concentrate on promoting private sector involvement in the major activities of the chain while substituting for the private sector in other activities (training, market information). The private sector has a greater chance of making these supporting activities commercial once a minimum critical mass of demand for them has built up.

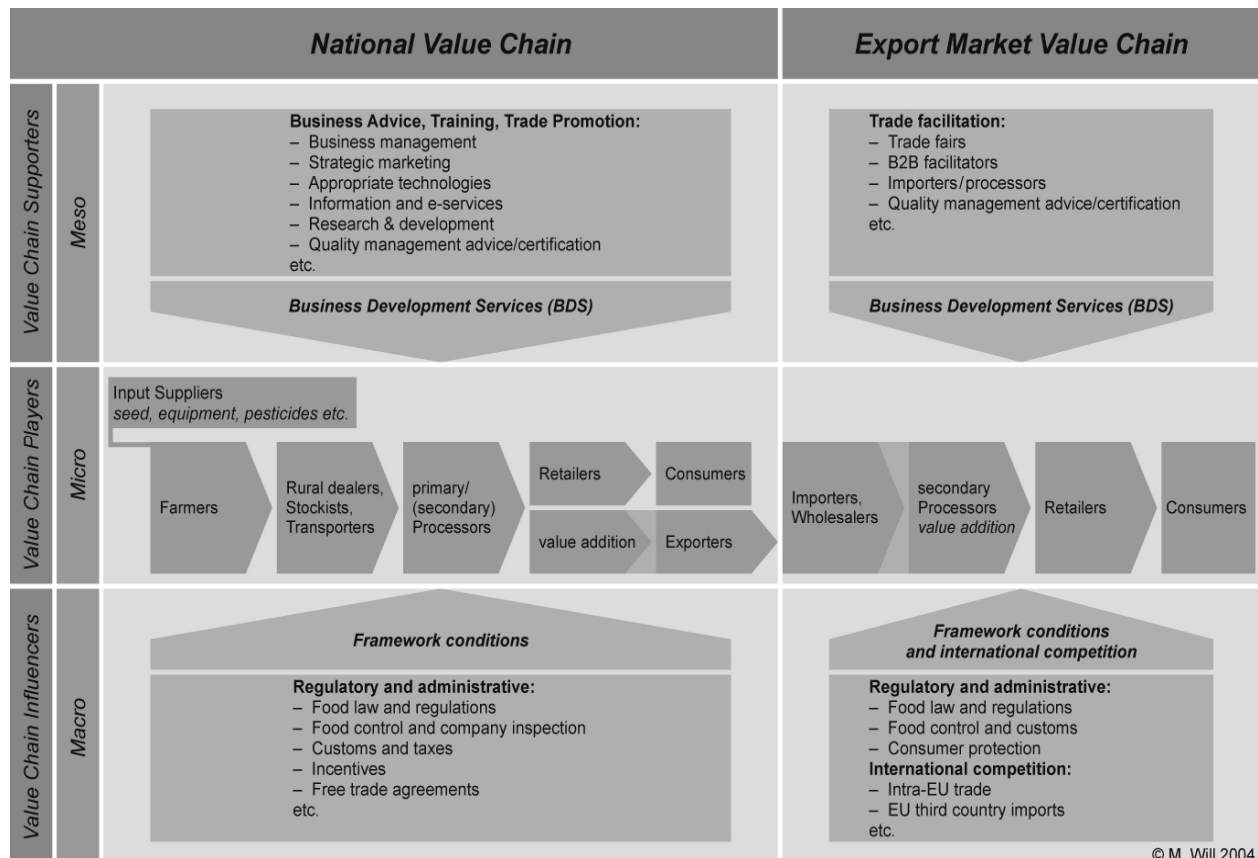
Concentrate technical advice to state owned companies, i.e. electricity. Constant supply of basic services (water, electricity) is essential for many rural businesses – donors should intervene for securing the constant delivery of such services.

### Main insights from the sixth VCRD debate

*What is the role of donors in supporting an Enabling Business Environment for supporting Value Chain Development*

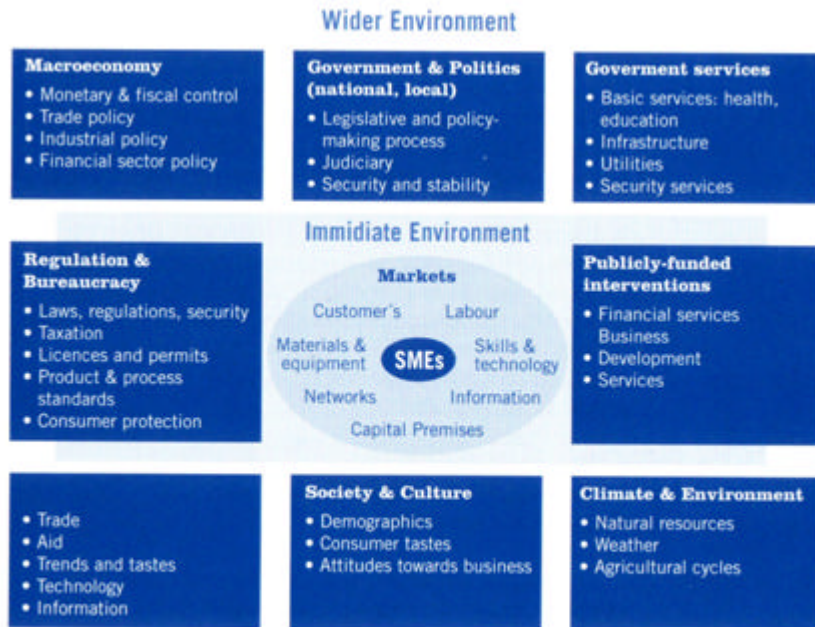
- 1. Enable local actors** (VC actors and supporters) so they can lobby at the policy level through the local government or civil society (chambers of commerce, for example).
- 2. Support or enhance changes at a local / de-central level.** Conducive policies should be based on regional characteristics. Donors can try to influence both public and private actors to define a conducive regional policy.
- 3. Technical assistance to governments** in order to offer a demand-oriented and efficient service to rural entrepreneurs. Enable policy makers and public services to act more private sector oriented by facilitating change management at local, regional and national policy and administration levels.
- 4. Small field-level projects.** Medium- and long-term projects have shown a pivotal role in the formulation of agricultural policy. Through close contact with decision-makers, policy dialogue and its 'objective' role, even small projects can have a direct impact on policies.

### Annex A. – Value Chain Players – Supporters - Influencers



## Annex – B. Introductory graphs and quotes to ‘enabling business environment’

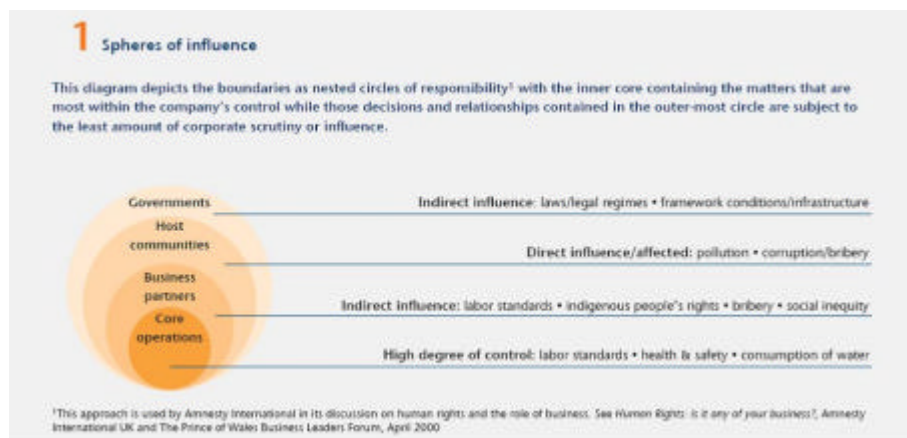
“An enabling business environment is essential to the creation of a level playing field for all parties in rural economic and enterprise development. To be successful, rural entrepreneurs need transparent and consistent applied rules and regulations, as well as a positive attitude by society to their success. In an enabling environment, government would encourage local self-organisation, maintain an active dialogue with stakeholders, and ensure that local needs are addressed (REED, 2003)”.



Source: ASIAN DEVELOPMENT BANK (GFA, SC) SME Development TA: Indonesia – Policy Discussion Papers 2001/2002, see: [www.adbtasme.or.id](http://www.adbtasme.or.id)

“An important influence on enterprise growth is the quality of the business environment, which may either promote or inhibit enterprise creation and growth. The business environment is the product of many factors, including infrastructure, human and physical capital, macroeconomic policies, and microeconomic regulations. A favourable business environment provides economic and political stability, offers low costs for business transactions, and allows for efficient business operations, which lead to

greater innovation and creativity. Most regulatory systems impose proportionally higher transaction costs on micro and small enterprises (MSEs). For these small firms to thrive, the bias favoring larger firms must be minimized (DAI, 2004)”.



“Harmonising public and private interests and formulating coherent policies is a challenging task for any government. Easy access by the actors in the rural economy to information, knowledge, technologies and resources requires

more than enactment of laws. Moreover, changes in governance and higher-level policies usually only have an impact in the medium or long term; in the short term, it is usually important for stakeholders and actors to adopt measures that allow for working within existing constraints and imperfections (REED, 2003)”.