



World Vision

Local Value Chain Development: A smarter way to do business

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Market access programs work on linking elements in a chain. This chain starts with the market demand driven by the consumer and moves through various stages to the supply end where the farmer produces the raw product.

For many farmers in developing countries, there is often little understanding of this chain dynamic. Lack of business knowledge prevents them from entering the marketplace on equal footing with buyers. Markets are sometimes home to influential, but crucially important players, often referred to as middlemen, traders, brokers or intermediaries. These middlemen often control information about pricing, demand levels and desired product quality, creating separation between market supply and buyer demand. In some markets, the middlemen can use their control over market information to their advantage, reaping substantial gains at the expense of local producers. Thus, despite agriculture being the dominant contributor to many developing economies, this situation contributes to local producers living in poverty.

The Local Value Chain Development (LVCD) project model aims to address these imbalances and thereby contribute to the improvement of local livelihoods. It does this by providing local producers with ways to obtain market information so they can improve access to markets and gain increased sales prices, leading to increased incomes. With higher incomes, farming families can provide their children with improved living conditions, which is the project model's ultimate goal.

Evidence from LVCD pilot projects in Indonesia

World Vision Australia (WVA) piloted the implementation of the LVCD project model in three Area Development Programs (ADPs) in rural areas of Indonesia over three years between March 2009 and March 2012, including the Sikka and Flotim ADPs, where the evaluation took place. The pilot projects were designed to target small-scale local producers earning less than US\$1 a day.

To evaluate the pilot projects' outcomes and assess the robustness of LVCD project model, a number of variables were monitored, including local producers' income, local job creation and contribution to child wellbeing.



Cocoa on a tree, almost ready for harvesting.

Facilitating Market Change

The LVCD project model aims to increase local producers' income by using strategies to improve both sides of the revenue equation: price and product quantity.

These strategies include the promotion of collective selling, increased market knowledge and improved product quality.

The model addresses the challenges related to collective selling, improving market knowledge and product quality through the appointment of a Market Facilitator whose job it is to develop business skills at the local level. Market Facilitators need to have commercial acumen and, where possible, proven expertise in value chain development. The Market Facilitator helps to enable local producers to better engage with the marketplace and build long-term relationships with critical market players. He or she provides local producers with training in core business and commercial

skills, negotiation techniques, market information gathering, product pricing, relationship building and networking with buyers and service providers.

In focus group discussions during the evaluation, project participants were of the opinion that their incomes had increased. When women were asked about the change in income, they had this to say:

"I think it has increased. We used to eat cassava with bananas, but now from morning until evening we eat rice, hahaha!" (Woman)

"The Previous year we did not have any bargaining power of the product price. The buyers set the same prices for dry or wet produce. Now that doesn't happen anymore, so I think the income has increased." (Woman)

Collective selling

Because they often can't produce in commercial quantities, local producers have low bargaining power with buyers and struggle to secure a competitive price for their crops.

Collective selling mobilises local producers to join Producer Groups where they can consolidate their produce with that of their neighbours. With increased volumes to sell, farmers gain greater negotiating power.

In the Sikka and Flotim ADPs, where the LVCD model was piloted, collective selling did result in enhanced bargaining power for local producers, who experienced an increase in both volumes of crops sold and sale prices. Interviews conducted with project participants provide a wealth of evidence of this.

"I began the program in two villages in Waibao. After the socialisation, the reactions were quite positive so I courageously set a target of [selling] 20 tons for the 2011 harvest. Actually, the results at the end of the season were around 40 tons!" (Local Market Facilitator)

"We thought that even though our knowledge was limited we knew that the price depended on the tonnage (amount of produce). So if we are struggling on our own it's because the price is not determined by us, but if we join the group, we collect much higher quantities of produce and the price can then be negotiated." (Local Market Facilitator)

Collective selling also resulted in greater system efficiency through reduced production costs and economies of scale. For example, transportation costs for buyers were reduced as they no longer had to collect produce from individual farmers, but could collect from the Producer Group's single selling point. Lower transportation costs meant that

buyers could afford to pay higher prices for the goods they were buying, leading to increased profits for Producer Group members. This was a win-win solution for both farmers and buyers.



Local producers have experienced an increase in profits because of collective marketing.

Increased market knowledge and product quality

The Market Facilitators appointed in the pilot project areas provided local producers with the confidence and market knowledge they needed to negotiate more effectively with middlemen. This increased their capacity to market their products at a higher price.

“The collective marketing initiative being pioneered by World Vision is very interesting; it’s the first time in more than 30 years where I have seen that the farmer can become their own boss and they hold their own scales.” (BPK – government agriculture department)

In addition to receiving training in business skills, local producers also learn how to improve the quality of their products, through improved processing practices, and better harvesting, transportation and product storage techniques. Better quality products can naturally attract higher prices in the marketplace, thus promoting wealth creation in project areas.

In the Sikka and Flotim ADPs, interviews with collectors, buyers, government officials and participating community members confirmed that farmers who participated in the

LVCD pilot projects were able to improve their product quality. Their produce was perceived as being of a higher quality than that of non-participating farmers.

“Before the collective marketing process began, the Candle nut quality was not very good but after the introduction of collective marketing I saw that the quality of Candle nut began to improve as did the volume supplied.” (Collector)

“The quality of the goods that I receive is not like usual, it has increased. [...] For the community the quality is much better and I explain to other groups about the quality I am receiving from these villages. Each group comes with their products and I can compare the quality and explain that farmers that have a better quality are getting higher prices for their products.” (Buyer)

This increase in product quality was matched by a considerable increase in sale prices. An analysis of the sale price for products sold through individual and collective selling over the three-year period in the Sikka and Flotim ADPs shows the collective selling price to be consistently higher than the individual selling price for all crops. Figure 1 details the price patterns for cashew,



Figure 1: Average increase in crop price post LVCD project model implementation

candle nut, copra, tamarind, cocoa and coffee sold both individually and collectively. It confirms the positive impact of the LVCD project on product pricing.

Analysis of available data shows that the collective selling price also grew at a much higher rate than the individual selling price during the project period. The collective selling price for cashew (the only crop sold both through collective and individual selling over the three-year pilot period) increased by 81 percent, whilst the individual selling price grew by only 50 percent.

Increased sales revenues translated directly into higher profits for local producers, so much so that it became more lucrative for some produce collectors (who were also farmers) to leave their role as collectors to join the Producer Groups.

“When the program [LVCD] was established, sales via the Gapoktan (cooperative group comprising local producers) could achieve higher prices and sell higher quantities than I could sell to the buyer as a collector. Because of this I joined the group to sell through collective marketing.” (Collector)

With increased income, participating communities were able to save more money, which in turn improved their access to financial services. This had a considerable impact on livelihoods as it reduced people’s reliance on the *Ijon* system, a local form of money lending characterised by pre-payment of crops in exchange for cash or kind, very high repayment rates and pawning.

¹ This system has existed in Indonesia for many years and results in farmers being trapped in an ongoing cycle of debt. The LVCD pilot projects have resulted in the almost complete eradication of the *Ijon* system in the project areas, which has further contributed to the empowerment of local farmers.

“With the collective marketing system in place we have had success in reducing the dependence on the Ijon system, although in the first 2 years it was very difficult, but now it’s going very well and only about 3 households, out of 123 households, still have a dependency on the Ijon system. (Headman)

¹ Rural Credit: The *Ijon* system, Bulletin of Indonesian Economic studies, volume 10, Issue 3, 1974.



Local female producers processing their products – cashew nuts.

Employment opportunities

Increased wealth in participating communities and higher profitability of farming practices contributed to the creation of job opportunities in the pilot areas. Farmers could afford to pay for labour on their farms.

Figure 2 shows that labour hired to perform various tasks increased substantially as a consequence of project implementation for all but one of the tasks analysed. The creation of new job opportunities contributed in turn to further wealth creation in participating communities.

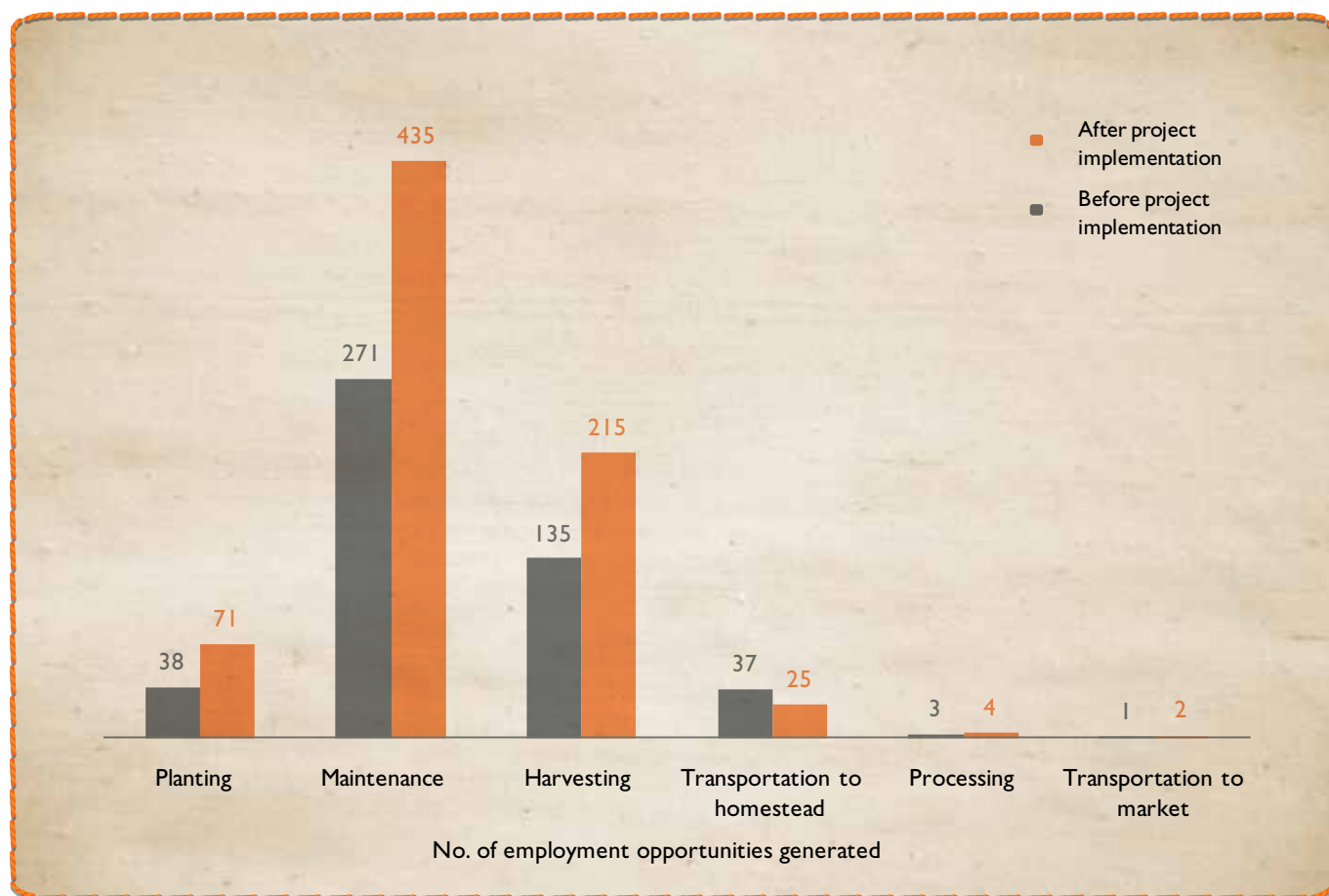


Figure 2: LVCD project model's impact on the creation of employment opportunities

Child wellbeing

Both pilots succeeded in meeting the project goal of improved child wellbeing as a result of the increase in average incomes. Interviews with community members revealed that most people used additional income to cover their children's education costs and pay for better healthcare. This increased children's access to higher education, with school books and uniforms in financial reach for their families.

"By having the collective market, we have been able to put our children to school. Before that we would only have our children study till primary school. But now they are studying at least till high school". (Woman)

Additional income was also used to improve dwellings and buy more food.

"[I use the extra money I get from collective marketing] to pay for day to day activities at home, build the house, to pay the school fees and buy food and drinks." (Woman)

Evidence shows that the majority of participating households were able to cover all their health expenses without any external support after project implementation and that they were no longer reliant on traditional medicine.

"Previously the community would visit the witch doctor (shaman) to receive traditional treatment, but after the introduction of collective marketing they prefer to seek treatment at the hospital and the local health clinics." (Headman)

Other benefits and LVCD project model uptake

In addition to the tangible financial benefits triggered, a number of intangible benefits were also recorded. Relations between community members improved and a widespread sense of hope emerged amongst project participants.

“The relationships between farmers are better, and moreover villages are friendly with each other. So collective marketing is not only just about price or income but also about the relationships in the community.” (Gapoktan head)

“[...] With the collective marketing people have got hopes that when they plant their crops that can generate enough money to pay for things and buy things.” (Headman)

As the benefits became progressively obvious, an increasing number of people from local and neighbouring communities wanted to participate in the projects too. Figure 3 shows the growth in the LVCD pilot projects' uptake, both in terms of participating villages (from one at the beginning of 2009 to 34 in 2011) and crop volumes sold through collective selling over the three-year period.



A local producer enjoys the success of marketing her produce for a good price.

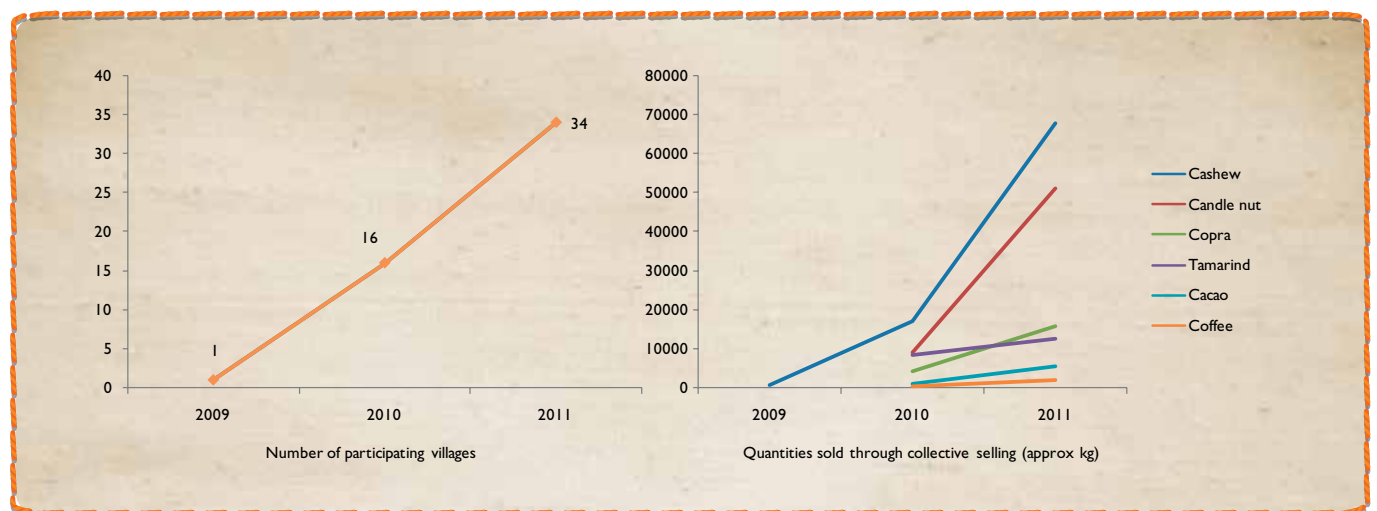


Figure 3: LVCD project model's uptake

Strengths, long-term sustainability and opportunities for replication

By analysing the pilot projects' outcomes, we have been able to identify the major strengths and weaknesses of the LVCD model and assess the potential for its replication and long-term sustainability.

One weakness identified is the model's reliance on the laws of demand and supply. Although this did not eventuate in the Flotim and Sikka ADPs, over reliance on market forces poses the risk that local producers might saturate the market with high-quality products, triggering a fall in prices as supply outstrips demand. In order to mitigate this risk, local producers must keep abreast of market demand and supply levels and adjust production volumes accordingly.

Other weaknesses include the model's reliance on the appointment of competent Market Facilitators as well as the development of Producer Groups. Whilst critical for the success of the model, these elements are not always easy to secure. It can be hard to recruit appropriately skilled and experienced Market Facilitators. And there can be cultural reluctance in some communities to embrace the idea of working collectively through Producer Groups.

Nevertheless, implementation of the project model in the Flotim and Sikka ADPs revealed the strengths that ultimately led to the results detailed in this document. A strong focus on market demand helps to empower local producers, who are then equipped to make better informed decisions about issues such as crop selection, harvest timing and product quality amongst others. This can lead to a paradigm shift amongst local producers who are trained to analyse market demand and plan their production accordingly. They are no longer focused on pushing their supply into the market in the hope that demand will be there and then accepting whatever price that buyers offer. They gain much more power in their negotiations with buyers.

Another major strength is the LVCD model's reach. Its strategies, particularly collective marketing, promote the wide participation of, and collaboration between, community members in the pursuit of shared benefits.

Moreover, the model's ability to build technical capacity at a local level and its promotion of continuous learning amongst participants have been identified as core strengths. And it's these features in combination that increase the likelihood of changes being sustained beyond the life of the project. Because of its simplicity, the LVCD approach can be effectively replicated in other places.



Local female producer processing candle nuts at her home.

Taking the model global

As a result of the positive outcomes of the pilot projects in Sikka and Flotim ADPs, and considering the model's strengths, World Vision has begun implementing LVCD projects in a number of additional ADPs. As at the time of production, there are 25 LVCD projects at different stages of implementation in 35 ADPs. Figure 4 details the geographical location of these projects.

The results in Indonesia have affirmed our belief in the model's robustness and its ability to improve the incomes of poor farmers in developing countries. At the same time, the LVCD model will continue to evolve and improve as we learn from these projects and the collective experience from other organisations and communities doing similar work. Most importantly, they have demonstrated the positive impact that local wealth creation can have on the wellbeing of children, the ultimate goal of World Vision's work around the world.



Figure 4: Countries currently implementing the LVCD project model approach

References

The content of this article has been fully sourced from the "Report of the Local Value Chain Development Project Evaluation in Sikka WVI: IDN189736/WVA: IDN078 and Flotim WVI: IDN189737/WVA: IDN079" by Cynthia Mulenga.

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