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Trust and Information Flow in the Value Chain

Lessons from the Zambia PROFIT
Community-Based Agent Network Model

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DAI

Overview



- PROFIT's approach to value chain development
- PROFIT's role in the retail input sector
- Purpose of the study and methodology
- Key findings and conclusions

PROFIT's overall goal

- To promote industry growth with poverty reduction by:
 - Improving the competitiveness of industries with large numbers of micro and small enterprises (MSEs)
 - Ensuring sustainable competitiveness to enable the industry and MSEs to respond to market demand over time
 - Increasing the breadth and depth of benefits at the industry, MSE and household levels

PROFIT's principles of intervention

- Implementers should be facilitators rather than players
- Minimalist facilitation strategies
 - Articulate improved business models
 - Incentivize if necessary through donor funding to buy down risks that limit critical transactions
 - Exit strategy

Why target the retail agricultural input sector?

- Low quality, high cost, and limited availability of inputs constrain upgrading
 - Long distances, geographically dispersed communities, poor road networks, and high fuel costs result in high transaction costs of reaching smallholder markets
- Affects many agricultural value chains with large numbers of smallholders
- Industry leadership motivated to expand their market reach to smallholders and try new business models

PROFIT's role in the retail input sector

- To build effective commercial relationships between the input supply industry and smallholder
 - Smallholders are seen as consumers, not just producers
- To expand and improve agricultural input distribution networks in rural communities
 - Access to quality inputs and the knowledge of how to use them is an incentive for smallholders to upgrade

How the Community-Based Agent Model Works

- Agents:
 - Are new commercial VC actors who sell seeds and chemicals to smallholders on behalf of input suppliers
 - Consolidate orders and deliver products to farmers at the community level
 - Are selected by the communities
 - Are trained and certified by input suppliers
 - Provide spraying services to farmers using input supplier products

Key Features of the Model

- Pre-payment/no use of credit - less risk to farmers
- Limited reliance on moving inventory until it is sold
- Strong cooperation among farmers
- Extension services provided by agents – focus on education-based promotional events, not just marketing
- Low-cost expansion into rural areas

Purpose of the qualitative study

- To understand PROFIT's role in building commercial relationships between input supply industry and smallholders
- To assess the role of the retail agent model in:
 - Facilitating smallholder upgrading (by reducing risks and increasing incentives)
 - Improving trust and information flow
 - Stimulating commercial input markets for smallholders

Methodology

- Qualitative research: in-depth interviews and focus group discussions
- Complement to quantitative survey
- Sample includes PROFIT clients: smallholders, input suppliers, and agents
- Field work in April 2009

Bigger picture of retail sector findings

- The retail input sector is growing
- The agent model is gaining traction
- Farmers in the study sample are generally experiencing positive changes
 - Increased knowledge, access to and use of inputs and services
 - Increased production and sales

Findings: Changes in Smallholder Behavior

- Increased investment in upgrading:
 - increased use of herbicides and chemicals to treat crops decreases
 - adoption of new seed varieties
 - Quantitative finding: Participant usage of pesticides rose from 17.5% to 31.2% over the period; usage of herbicides rose from 6% to 19.1% over the period
- Increased purchases of certified products

Findings: Trust and Information Flow

- Evolving sense of trust between farmers and agents
- Improved information flow to farmers on options for seeds and inputs
- Win-win relationships for farmers, agents and input suppliers reinforces trust and information flow

Findings: Systemic Changes

- Input suppliers have increased supply of inputs and services to smallholders
- Input suppliers have better understanding of the smallholder market
- New linkages are created between input suppliers and service providers
- Agent network grows through self-replication
- More input suppliers are looking at using the agent model
- Smallholders are empowered

Findings: Gender Issues

- Women play a central role in agricultural production and specific activities related to product upgrading
- Women farmers are quicker adopters of technology
- Despite small numbers, women agents play an important role
 - Input suppliers cite many advantages of women agents
 - Women farmers trust them more
- More women agents and women specific marketing strategies can promote upgrading
 - By providing women equitable access to inputs and services and information on how to use them

Findings: Conclusions and Lessons Learned

- Farmers are willing to pay for inputs once they see the value
- Understanding farmers as consumers can be effective at fostering behavior change
- Community-based selection of agents is critical for building trust
- Understanding incentives around individuals – both women and men – and how commercial networks operate is critical for building effective commercial relationships
- Active involvement of input suppliers in community promotion and education events:
 - Builds credibility of agents in communities
 - Improves input supplier understanding of farmer mentality, constraints and needs, better project farmer demand
 - Helps input suppliers understand farmer problems and develop new products and seed varieties to meet market needs

Findings: Conclusions and Lessons Learned

- Trust and information flow are important elements of the agent model
- Management capacity of input suppliers needs strengthening to meet demands of high-volume smallholder market.



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THANK YOU!

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