



Market Aggregation: Facilitating “Game Changing” Opportunities in Ukraine

Presentation Transcript

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Presenters:

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Female:

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With that I'd like to introduce Jeff Levine.

Male:

Thank you very much. All right, good morning, everyone. Can you hear me okay? All right, good. Good morning. Welcome and thank you for coming to another breakfast seminar. Today we're going to be talking about market aggregation, and I'm assuming everybody's read the bios and the intros.

Today's presentation is particularly interesting to me because in USAID, and I should start off by saying I'm with the microenterprise team, in USAID today the administrator is challenging us to talk about learning cycles, being flexible, figuring out how to recognize that development isn't a smooth, linear process, that there's bumps along the ways, that while we can all identify a goal, that over the course of a year or two years or five years things are going to happen and we need to be flexible, we need to be able to adapt, we need to be able to take advantages of innovation and technology and figure out how to introduce those things into our work so that we can maximize what we're able to achieve with our projects and our time. And this is going to be an example of how that process was applied in the case of the Ukraine, where when small holder farmers and their challenges of trying to access the market, trying to plug into an inclusive value chain on this project and the work of MEDA, used a style and an approach that has the possibility for us to replicate, for us to look at and talk about I hope in today and with the people on the webinar about how they get to some creative results and use the process to be flexible and to incorporate change. So again, I'm very excited and thanks, everybody, for coming.

I want to introduce today's presenter. Nick Ramsing is coming from MEDA. He's been with MEDA in the past, in the '90s, and is back with

them today. He's currently serving as a project manager and senior consultant, focusing on ag supply chains, market linkages, agricultural finance, and using his past experience also in ICT to look at innovative and technological changes that we can make. He has almost 20 years of consulting and management experience, doesn't look like it, a young guy, in a range of practical development areas, which is always something that we appreciate and which brings a lot of value to the work that different folks and projects are doing. He studied economics at the University of California, Davis; Boston University. You can read more about him on the Web. But let's get to what he has to say and then some discussion and your questions and answers. Nick.

Male:

Great. Thanks, Jeff. Appreciate it. Excellent. Can everybody hear me okay? Good stuff. Thanks for the introduction; I really appreciate it. Thanks, everybody, for being here. I see some MEDA folks. I heard that there are some MEDA folks online too, so that means nobody in MEDA is working this morning.

I also brought some props, some duct tape, because I have hands that tend to move around, so if that's get to be the taste I'm going to rest for you to grab that and make sure that it gets attached. But I've been environmentally constrained here as well, so this is a good thing; I'll be sitting down here and won't be walking around the room.

Just in terms of where we're going today; we're going to be looking, as Jeff said, at some of the project piece of a market aggregation situation, but how we use some iterative processes to really try to keep an understanding of the market. And we want to be able to share some of the experiences with that from our activities, but also the methodology. Where we're going to go is we'll talk a little bit about the project, the overview of it, we'll talk about the approach for a number of different slides. We'll start at a high summary piece and then we'll step down into some smaller tools that we actually used, and then we'll talk about what's going on currently in the current states. We'll look at a couple examples and then we'll look at some results and some lessons learned.

Look at this as a really dynamic, interactive time, so if during the course of the presentation you have a burning question or there's not something that's very clear, feel free to raise your hand and definitely try to adjust it as we go through.

So what is UHDP? This is a project that is \$12 million over five years. We are currently in year four, just finishing up year four, going into the last year. It's funded by Canadian SITA and it's had a focus on horticulture, hence the name, Ukrainian Horticulture Development Project. We're active in two obelisks, in the Autonomous Republic of Crimea and

then also in Zaporizhia. We have a core target of hitting farmers that are less than 10 hectares, and we're operating in primarily table grapes, strawberries, greenhouse vegetables, and a couple other areas in terms of horticulture as well.

There's a number of focus areas for us as we've started to launch off and have been working. There's been a lot of extension services that have dealt with production techniques as well as some fair and trade shows trying to link people together and be able to show what's happening in different parts of the market. There's some technology pieces; we've worked with cold storage, with greenhouse, improved greenhouses, with weather stations and crop models, and then also with some ICT reporting as well. There's an element of financial services to what we do as well; we'll touch on that briefly a little bit today. And the big one that we're going to talk about today is the market access and dealing with some of the aggregation.

So just in terms of this, there's a lot of assumptions built into this particular slide; this is really meant to be a high-level summary in terms of painting a picture of an understanding. You've seen a lot of this before, there's nothing necessarily completely new in this particular piece, it's really value chain analysis. So the whole idea of being able to analyze a particular market, being able to design a particular intervention, and then be able to implement it.

If you look at this it looks fairly waterfall, right? We have phases of moving to different things. What we've tried to do is really bring back feedback loops and the myth to that. We're actually cycling through these things and asking questions as we go through the project. MEDA has a lot of experience in this area; we've been doing this for a number of different years. We have some standard toolkits that are up in the corner there. We'll leverage those and we'll tailor those for different pieces. In the bottom-left of that you'll start to see some ideas and some key components that we're going to go through. And going through the analyzing, going through an understanding and saying really what is the business market challenge in the midst of this. And the use of being asked why five different times, getting down to that root cause, what's truly the matter that's going on in the midst of that, what are people saying through the focus groups, what are happening through different interviews, what's happening through data that one might uncover.

In the midst of that coming up with a design, one of the things that MEDA really focuses on is what is the viable business solution in the midst of this? Not really creating a project itself that is necessarily not sustainable, not working with people that are not necessarily going to be ongoing concerns, but really in the midst of that, really focusing on that business

solution. So in our understanding of trying to frame that market we spend time with a value chain mapping and we also use something called a causal map, and we'll get to that in a moment.

Stepping into the implementation then, we start with a model, where there are understanding, where there are assumptions in the market, and we go out and we try to test that. We start with standard hypothesis, if this, then that, and how do we actually test it. We really execute that with the implementing partners, and as Jeff said, really what we're trying to do is trying to adapt. In the midst of a five-year project all sorts of different things happen and a lot of things start to change in the midst of that.

So looking at a couple of those tools. This is an idea of a causal map. Just real quickly, is anybody familiar with mapping techniques generally? Just raise of hands. Okay, so this is familiar to some folks. This is really taking a look at your assumptions and trying to draw influences to these different assumptions. So if at the end point is to try to increase or make improved market options and revenues for small holder farmers we need to step back and say, "How do we get there? What are some different paths that we need to have?" So we're starting off and saying, "Well, we need to have an agribusiness orientation. How do we do that?" Working with bank transactions instead of just cash. Working with trade documents in order to access different market pieces. Got a link to traders, right? Get an understanding of what the end market is so that dotted line coming back to the understand the market desires is key.

So what we're doing in this is trying to get a notional understanding of what's happening. And this tool is important for us for our team and also for our implementers, because it gives us something to talk about together, what is our understanding of the drivers in the market, what are the drivers in terms of our solution. So the idea being you use a graphical tool, you take language out of it, you take excessive words out of it, and you put a graphical tool, a picture that everybody can look at and dialogue about and be able to say, "No, I don't think it's so much that; I think it's this." So being able to iterate through this particular tool set and this graphic is really important. As you go down and get further information you can come back to this and revisit this over time. So again, notional here.

Now taking that notional idea and placing it within the market environment and the overall systems that exists. So the markets exist in a larger context right; you have social issues that are going on in the midst of it, you have political issues and influence in the midst of it, and being able to understand those feedbacks in the midst of it that are highly important. This is really what ends up happening in terms of tailoring something to the specific context and things that are around that.

So in our particular area in Ukraine we were dealing issues with some gender bias and some ethnic bias, particularly in Crimea. There's an issue with land-sailed moratorium, so that really affects what's happening in terms of peoples' willingness to invest in different places. Access to finance was a constraint, land rights are a bit of an issue as well. There are commodity markets that do exist in a number of different areas, but not at the level that we were at. So all these different factors, being able to ask the why, being able to understand in the midst of that and get to a point of understanding what the drivers are and then being able to go back and reinforce once again what is our notional understanding of what's happening. Okay.

So taking that to the next point that then sets up some hypotheses for us. What's the market challenge? What really are the differences here? So in this one area that we're talking about with market aggregation we really saw the issue of market access as being a challenge for a lot of these small shareholder farmers. So in the bottom there you see the farmer, you see their own production; there's a lot of it that's used for household consumption and then they'll take the excess and they'll take it to the roadside. So on the local markets that's happening, really what's happening there is you sell the excess. There's low volume, there's high transaction costs for any trader that might come and look to interact with them. There's a huge quality variance in the midst of that product. It's cash-oriented and you're not necessarily dealing with a registered business entity, right? People are looking to stay under some of the tax issues and things such as that.

But to link into the higher value markets where really as an agribusiness market-oriented piece transactions need to be sensitive to the costs. So traders were going to be looking at larger volume and they're going to look at certain quality in the midst of this as well. They're also wanting to engage in bank wire transactions as well. They don't want to deal with a lot of cash. They have to move from one part of the country to another part of the country and they don't want to carry cash with them. They're also having, because they're traveling, needing to carry documentation with them; a certificate of origin is really important, especially as you're starting to get into the export market, into Moscow and into some of the supermarkets as well. These markets want to know where the produce actually came from.

And packaging is important. If you're used to dealing with banana boxes, where you can put some of the lower-quality pieces at the bottom and some nicer pieces on top and hide some of that and increase the weight, traders are looking to say, "Well, I want to make sure that what I'm buying, all of it is good." So the packaging of that allows them to look down inside and actually see what's the value of the overall commodity.

So there's a lot of barriers to entry into access in the midst of that for a lot of these small holder farmers. How do they get from one market to the next market really is a jump.

So as we start to look at this, and we started with our notional idea with the causal map, one piece that Jeff alluded to as we've looked into this is to be able to say, "How do we iterate from an idea through a design into prototyping something and then bringing that back and actually implementing it?" So whenever you start off in the particular market you don't necessarily know where you're going to end at the end; you have an idea, you have a strategy, you have a direction, but the first step is many times dependent on what's going on in the midst of this.

So for us it really is an issue of looking back and saying, "What's the voice of the customer? In the focus groups and the interaction with the traders and the interaction with the small holder farmers what are they saying? How are they perceiving these different pieces? How do they view the world in the midst of this?" And that allows us together work with one another to design some interventions. Again, using those tools of the causal map and that graphical piece is highly valuable to work with our facilitating partners to get an idea of what's driving in the market. And as we iterate further and further in the midst to this it allows us to build up a bit more of a model that we can use in a spreadsheet or even in a linear regression to go ahead and test do we actually have this right from some survey data.

So that leads us into prototyping, it leads us into testing experiments, and it leads us to leverage M&E. So people going out and doing some surveys and bringing information back in the midst of this, and that whole cycle of being able to learn and adapt, and we find something that actually has traction, then we can implement it and extend it and scale it.

So the purpose of this really is an iterative process that allows one to fail quickly and fail small. Right? We don't want to start moving down a huge path and find out that was not the way to go and we spent all this time and effort and money and we failed big. We want to really fail quickly so we learn quickly and we want to fail small so we can build further.

There's also an idea of learning in the midst of this. The idea of learning about really has to do with data; that's the survey pieces. But learning from the market is really stepping down in and emphasizing that voice of the customer piece and really understanding where they're coming from, and then it's exciting then when you can take it to the next level and actually get to the point where everyone is learning with one another.

There's the experience of joint learning that happens, both with the traders, smaller farmers, the key facilitating partners, people get an understanding in the midst of this.

And a key piece to this, there's been a lot of discussion about design thinking really from 2008 and on. This is really coming out of a group called IDEO and a number of design firms in the midst of this. And there's been a frustration with some of the business community in terms of taking this up, 'cause the business community takes this and they go, "Oh, it's a process." It's not just a process; it's actual perspective and way of thinking. The whole issue of prototyping and moving through iterative steps is really a perspective of adopting a new way of thinking as you're walking into the middle of it. Okay?

So stepping into where we're at right now, as you think at the bottom left-hand side of this graph, it really is the starting point. We have on the bottom, the x-horizontal there is the access to market, and on the vertical is looking at increasing capabilities and increasing assets. So if you're starting at the intersection of that and you're moving forward and you're following that iterative process there are some first steps in terms where we need to go, and that first steps is really interacting, understanding what the market wants, and understanding what peoples' constraints are and building solutions into the midst of that.

Well, stage one for us was really about creating some informal alliances. So this was about taking advantage of lead farmers that are actually in the market that had connections to traders and being able to build on that relationship and being able to feed back, again, that understanding of market expectations back to other people who had not participated in that market. The next step in that started to say, "Well how do we deal with some of these additional constraints that are there? How do we end up solving some of these things?" So part of that had to do with adopting new technologies. So if you're in the horticulture market and you're dealing with strawberries, rot is an issue. So being able to create cold storage facilities and being able to put those out into the actual farmer space was really important for the farmers in the midst of that and for the lead farmers in terms of aggregation.

And the cold storage facilities were interesting because they were not something that existed in that particular market, so it was a new piece. It was a matter of going out and finding suppliers and people to think conceptually about how to do this, taking a container, putting refrigeration on it, insulating it, and then taking it out to lead farmers and saying, "Hey, what do you think? How is this working for you?" and being able to iterate that particular design and that particular product for different farmers. So there's a variety of different cold storage units that exist out

there, each one getting better; it was an interactive with what's going on with the power constraints in the midst of it, what's going on in terms of what the traders were looking at in terms of quality, and what the actual business concern was from the lead farmers.

Same with greenhouses, there's a lot of greenhouses that are created from wood, really difficult to stretch high-grade plastic across that. And so looking at improved greenhouses using metal, again, something that was new for a lot of these people. Stepping in with suppliers who had not had experience in the midst of this, supplying a bit of a grant piece to go ahead and stimulate some of that. Then being able to take that, apply that in the field, and then being able to leverage some of those as demonstration units. So for us we're really interested to see what happens as we're coming out of this really difficult winter the Ukraine had had and had people actually look back and say, "Wow, what was the performance of the strawberries under these improved greenhouses versus some of the other ones as well?" And then weather stations as well.

In the midst of that as well, as they're interacting with the traders, I mentioned the issue about packaging and grading of quality. So there was a lot of learning in the midst of that, being able to put things together the way that the market was expecting it. And that then led to a stage two piece. Now we at the very beginning didn't necessarily see the stage two in terms of where we were heading, but through the iterative design piece and looking forward we could start to see this unfolding and starting to move some of the market actors and be able to say, "What do you think actually about creating a business entity?"

So that was then unraveling a lot of the different issues of what does that mean in terms of these particular producers and these particular lead farmers in the midst of this, creating commercial business, dealing with actual bank-wired transactions, and then actually adapting some of the packaging and working in the midst of that as well.

So that's where we're at today. There are a number of folks that are still at the informal stage and there's folks that have moved on to more of an ag business perspective. It's going to be interesting to see we're actually ahead in terms of a stage three as we go further in the midst of that.

So some examples. One is that the Golden Valley Cooperative in Zaporizhia, when they originally started there was ten farmers with ten different perceptions. They wanted to do some aggregation, but because they had different quality expectations and they had different understanding of how to do business, things really didn't work well for them. The other piece as well is they weren't documenting anything; they didn't have documents to give to traders and they weren't cash-based. So

in interacting with them, started a facilitation with the traders, shared some expectations back and forth. We looked at some legal options for them in terms of how they actually might form in the midst of that and facilitated that discussion.

Out of that, three friends together decided to create an actual business entity, in this case a co-op. We came alongside, provided some additional pieces with a business plan, interacted in terms of management and marketing, talked about a few of the other issues that they were challenged with. They ended up installing some cold storage units in the midst of that. They upgraded their storage areas outside of the cold storage piece. They made some decisions about improvements with packaging. This wasn't just linear; this was through dialogues and additional transactions with the different traders in the midst of this, to the point where now you can actually see banana boxes in the back corner of there and you also see some other improved packaging in the front. The structure around that is something that they invested in themselves. You can see the back-end of one of the cold storage units on the left.

But now there's a point where there's ten of them together. They're providing business services to small holder farmers around them that bring their produce into a particular area. People are paid, the produce is stored, depending on what type it is, in a cold storage unit or another particular place, and they've worked out specific times where traders can come expecting certain volume, expecting certain packaging, expecting certain grading. So it's much easier now for the traders; they show up, load their trucks, move on to market, reduced amount of time, overall reduce cost of transaction to the trader as well.

So it's been an interesting growth with them and they are quite dynamic, and they're actually exploring a bit more about where they go in the future of this. A key point in the midst of this as well is that by being a co-op, an actual business entity, now they have bank wires, they have a bank account they can wire back and forth, they have certified documents they can work with as well.

Looking into Crimea, here's a bit of a smaller organization. Some challenges they had were some gender and ethnic bias. These were tartars in the midst of Crimea; they were women and they were competing in herbal medicines. One of the challenges they had is they were going out into the fields that were non-cultivated areas and basically harvesting what was growing in the midst of that and then trying to take that and sell. So in their particular place, looking to go ahead and improve some of their storage, improve some of their cultivations and getting an idea of what their organization was, where they wanted to go in the midst of that, again, the business planning, the agribusiness perspective, trying to extend some

of their trading links in the midst of that and link them up with further markets in the midst of that, improving their storage. There was another grants that were provided in terms of tillers and some other pieces, just to test and see what was going on, how would that actually affect them and interact with them. And now they're actually taking some cultivation to their homes and using those tillers in their home areas, cultivating close to their families, where they can watch their children.

They've invested in a tractor and in a truck, which allows them to actually go out and pick up from the homes, rather than necessarily everybody picking up as well. So again, the specific dynamics of their household and their children. And they've improved their storage, which looks entirely different than the other storage that you've seen from the other place as well. Okay?

So some results just really quickly. In terms of aggregating and interacting, there's about 2,500 clients that are grouped in these clusters. We have about 5,500 clients overall, and again, operating in those two different regions and clustering around those particular areas. Last year, 2011, they did overall aggregation that's valued at about \$7.8 million. That came from a variety of different crop types. Volumes in terms of that, it's the inner part of that donut, was about 3,100 tons. And then the value again, \$7.8 million. The majority of that was greenhouse vegetables. There's a number in terms of table grapes, medicinal herbs, and also in terms of strawberries as well.

So looking back at this, one of the things we did in our last M&E survey was to ask a number of different questions, and these were two that I thought were quite interesting. The first one really asks people a perception question, "With aggregation do you believe that you got a better price?" And the graphing in that is really interesting, right? Some people are saying, "Well, about the same," some people got higher, some people, "Well, I think I got lower." But really, looking at that graph there's no perceptual difference in terms of peoples' perception of whether or not they received a better price through aggregation. And you look at the reported data coming back from all these different areas leads into question two, "Well, was there a revenue increase?" In using analysis of variance we looked at the population that did not aggregate versus the population that did aggregate, and there was a huge statistical difference between those that did aggregate versus those that did not. Those that aggregated vastly improved their overall revenue than those that did not aggregate.

Okay, so you look at this and you scratch your head and you go, "Okay, what's going on here?" So I toss this out to everybody really as terms of a question, what should this lead us to? You've seen a bit of that iterative

design, you've been hearing causal maps, looking at this data and thinking back to this whole issue – flipping back here, sorry – where would this take us back? Any ideas what we would do with those two perception pieces? Feel free to throw something out.

This should lead us back to the dynamic questions of why, right? What is going on in the midst of this? It should lead us probably back to some focus groups as well. Revenue is a function of what? Revenue is a function of price and quantity. So in the midst of that, one of the questions that we can explore further is well, hmm, if people are in a small herd or farmer situation and they're selling their excess to local markets, we know there's a lot of waste in the local markets. There's a lot of waste that gets carried out in the roadside stands. But if they're actually taking that and aggregating it and selling it through consolidated point of sales, there's going to be probably more volume that's actually passing through as well.

But this is something where we can take and step back in, back to that iterative loop and say, "Hmm, what's going on here?" Being able to go back and follow people specifically with some focus groups and explore these questions a little bit more, so that it leads, again, to further design, it leads possibly in some cases to be able to say, "Hmm, people who aggregate actually are better off." And that would lead us to a point of extension, reaching out and trying to figure out how do we bring other people into aggregation situations. Okay?

So that whole piece of learning, asking the questions, adapting some of the different pieces, working the promotion back in the midst of this again, how is the market interacting in the midst of it.