



Market Aggregation: Facilitating “Game Changing” Opportunities in Ukraine

Q & A Session Transcript

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Presenters:

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Audience Member: Nick _____, AZ&J. Just a couple of questions. One, I really like what you said about-

Female: [Inaudible]

Audience Member: Nicholas _____, AZ&J. First of all I just wanted to say thanks for the presentation, but also I really like what you said about fail small and fail quickly. If you could please give us an example of that in action, maybe what did happen and how you overcame. And then also really interested to hear more about the exit strategy. There seems to be a lot of, you know, aspects that within the supply chain, cold storage, you know, some things that may have a heavy cost, so how does that become self-sustainable at the project?

Male: Good. Yeah. So the fail fast and fail quickly, a good example would've been cold storage or in the greenhouse pieces. So just in the midst of that, one of the questions is how does that actually become a sustainable business service for the suppliers selling to these particular markets. So again, being able to demonstrate a capability, having the farmers and having the business entities be able to see value from it, actually purchasing into it as well is some of the hypothesis that are outside of this, right? How to test in the midst of that.

So starting off with a quick grant to be able to go ahead induce somebody to purchase part of it and be able to discount up to 20-percent of the cost of it was an initial piece. Being able to step in with some leasing financing as well was another aspect of that as well. So you're really looking at that lead farmer or that business entity in that stage two of being able to adopt some of those different pieces, being able to demonstrate that, where people are now seeing that's a viable business piece, a viable investment in the midst of that, where they're making money.

What's been interesting to us is we've actually gone back to a number of different people who are the lead farmers, and all of a sudden you see this other stuff that's going on that you weren't part of, right? There's different business decisions where they are taking some things that they were doing originally and they've expanded it and you go, "Wow, there's a lot more money here than we thought." Right? We thought there was a lot more investment going on in this, and now all of a sudden we see them doing major investments in storage. So there's other money that's underreported in some of these different pieces as well. So that for us becomes this point, again, to be able to say, "Hmm. This is interesting."

So the piece of this in terms of saying what's the viable business piece of this, people are investing these pieces right now and they just didn't have

access to some of these different things as well. So sustainability piece of this, the project's obviously not sustainable. We're there to facilitate, we're there to demonstrate, we're there to spur, we're there to create linkages between different pieces, but we're not an ongoing business entity. These small holder farmers are the ongoing business entity. The people who are the suppliers to these people have a business entity gets picked up in the midst of this and they can actually start to sell some of the greenhouses in other areas.

So that's what we're starting to see right now, that there's a demand now for these different suppliers of greenhouses, "Please come build this." How do we finance it in the midst of that? And so that works from the ag financing side of this as well. we can get a little bit further into that in terms of the questions if I didn't answer that specifically; it was a bit oblique.

In terms of just some of the lessons learned in the midst of this. Just really emphasis in terms of learning and understanding and then broadcasting that out to people, right? Listening to the voice of the customer. This goes back to some of the questions that you were asking in terms of the business viability of this. Putting something out that people in the market are saying, "We're really not interested in that" doesn't help anybody. So why cold storage? Cold storage because traders are saying, "We really want to have a better product. We want to make sure that when we show up something has been preserved." So that's a demand piece. That's a market driven from the end market coming back and saying, "We need to make sure that strawberries and other pieces actually are preserved in the midst of that," leading to what? Leading to appropriate cold storage. So the first one's coming through, yeah, it's okay, not that great. How do we do that again, pushing that out further in the midst of that? So really responding to those market, end-market demands.

Looking at a viable business model. So this goes back to this as well, not just from a project perspective, but making sure that when you're actually looking within design, what is the ongoing concern and what is the viable business model for those different entities that are there and how they can make actual investment decisions in the midst of that. So that takes you back to your crop modeling, that takes you back to your business planning, that takes you back to, "Wow, great idea. When can you actually afford to invest in that particular piece? Are there things that you might want to do a little bit before hand?" And that consultative approach of interacting and working with groups, particularly the group that I mentioned from Crimea, help them think, "Well, we've got some great big plans, but we can't get there yet; we need to take some other steps to invest to make sure that we're making that linkage that can get us to where we need to go, but we need a different foundation to start with."

The prototyping and testing, huge with some of those new technologies, being able to demonstrate in the midst of that the concept of learning; the idea, again, fail quickly, fail small. And then the whole emphasis of being able to use an innovation fund in the midst of this. And this is one where I really credit SITA with the midst of this, being able to give us a fairly large-sized innovation fund, where we can use money to test. So we have the delivery piece in the midst of this, but being able to come back and be able to leverage that, having the flexibility of a fund to be able to say, “We’re not going to use a lot in year one and year two; we’ll use more in year three. Hmm, what’s going on in year four? And in year five we’re also looking in terms of what we actually might use in some of that.”

So that innovation fund provided us some flexibility with what to test, when to test it, and not to have the pressure of saying, “Oh, you’ve got to expense a lot of this right now in year three.” That allowed us to go ahead and continue to use some of that funding later in the project as well. So the idea of then getting to scale, how do you create demand, how do you test quickly, how do you then leverage particular demand pieces for those different areas.

Okay, so I was told that I had 30 minutes. I’m sure that I went fairly much over that. But definitely want to encourage some of the questions and interactions right now. So back to you in terms of that issue about the fail, fail quickly. I hope that I answered that specifically. If there’s any follow-on from that.

Audience Member: Well, no. Yeah, you said cold storage; what exactly about – sorry. Yeah, you said that cold storage was – can you tell us a little more about what was the problem with the cold storage?

Male: Yeah. So again, the small farmers growing strawberries in open fields, okay. They would grow, they would bring their – it takes us back to this one here. They would grow for their own household and anything beyond that they would actually take to the roadside or to a local market. In the midst of that that crop will start to rot. So if you’re going to take it to a higher-value market that’s going to be able to sell something in a supermarket two weeks later or three weeks later, that crop needs to be preserved in some way. So being able to put it in an environment where it’s able to maintain its freshness and not rot under the hot sun is critical. So looking into that market, a barrier to actually reaching that market is to make sure that you have a facility of storage that helps maintain the quality of the good that you’re interacting with. Okay.

Female: We’ll take a webinar question.

Male: Yep. So we have about 22 people on the webinar, and the question here is from Andre Barkov; he's joining us from Hope Ukraine.

Male: Excellent.

Female: And the question is, "How do you overcome such issues as government, especially IRS, that are really restrictive? So when businesses, for instance, generate bank transactions they are aware of that. So how do you encourage that?" And then he just _____ up. Okay, "Ukrainians are usually not really happy about aggregation or collectivism; they still remember Soviet past with collective farms. Is it still an issue?"

Male: Yeah, excellent. So that takes us back to this market approach, right? So we have a certain theory of change, certain assumptions in the midst of this, and putting this with that particular environment with Ukraine, right? So the aspect of cooperatives, yeah, boy, huge. So a lot of mistrust, a lot of sense of I really don't necessarily want to put my destiny or my business in the hands of those around me; I really want control it myself in the midst of this. The aspect in terms of a cash-based interactions and transactions is key, because people are all not wanting to go ahead and expose how much they're actually making in the midst of that.

So one can stay at that particular point or one can choose to actually start to leverage into the higher value markets, where there are necessities of certificate of origins, where there are documents and there are bank wire transfers that need to happen because you have people that are moving across areas and don't want to carry cash with them. So how do you get there? The aspect of the cooperative, if you will, in Zaporizhia was a point where they were seeing together previously that they actually wanted to go ahead and take advantage of some of the aggregation pieces and sell more volume. For them, being able to go through that iterative piece of what were the constraints, how do you actually form an entity in the midst of that, what's the actual net present value of that investment coming back in terms of the volume they could do, was it worth it to them with a key piece there.

So now that they've created a business entity and there are ten of them that are managing that together, so that idea of a cooperative in that particular instantiation really is an entity of partnerships, right; ten people who know one another that can now engage in bank wire transactions with other places.

So what that has allowed small holder farmers to do around them is to bring their crops to that business entity, engage in a cash transaction for the small holder farmer, and that business entity then bears the risk and the issue of conducting the noticeable transactions that happen through the

bank accounts. Okay? They're making money and they're making money because of the volume that they're at, and in some cases because of the prices that they're actually able to engage in in that particular market.

So there is an investment piece there, there is an investment opportunity, but it's the unfolding of that for people as they start to step down that line of what does that mean in terms of their business plan. The small holder farmers around them will be able to take advantage of that business service and be able to bring things and still do a cash transaction in limits to that. Okay? So that issue of distrust exists and that particular mapping of it, that's something that we've had to deal with and interact with. And from an individual context standpoint, right, we're not pushing people into this. When they come to a point where they think that we can do better together then we help facilitate how to do that. But we're not driving that for them. but in cases where it is working we're saying, "Oh hey, do you know about that Sunny Valley Cooperative up in Zaporizhia? Here are some of the things that they've been doing." Right? So them facilitating that dialogue and that interaction in the midst of that, and these people meet each other at the extension services with the trade fairs. So being able to link people together and say, "Hey, similar business problem. Why don't you go talk to these people over here?"

So that issue then of the cooperatives or business partnerships in the midst of this starts to unfold a little bit more people as people see how it actually works out in the particular market. But those are definitely huge drivers in the midst of that and part of the overall market influence. Got a couple in the back here too.

Female: Please do state your name and affiliation before asking your question. Thanks.

Audience Member: Thanks. Brian Greenberg with Interaction. Really appreciate the way you modeled your approach and schematized it; it really communicates well. I think I want to ask about the exit strategy, scale, sustainability issue and the role that your project effort played. Presumably you guys identified a set of business, development, and market catalyzing services that weren't being provided and that had a lot of potential to change markets there. And it seems that there would be an opportunity to create a service much like the project provided, and so I'm wondering, your credo seems to be facilitate but don't become a business entity.

Male: Absolutely.

Audience Member: And so my question would be was there any thinking around creating a successor to the services that you provided, and that being part of the business development process that took place here to put the services you

provide into the market and cost them and pass that along? Because presumably if it's cost-effective, if it's worth SITA's effort to invest in you because of the greater returns it catalyzes in the market, that would be a viable niche. And so I'm wondering about how the handoff might work to a private sector actor, and if not, why not?

Male:

Yeah, great question. Thank you. Background first and then specific. So background in the midst of that, we're not all that smart, right? You show up, you interact with other people, and that dynamic learning with and from one another then creates some of that different learning. Also, there's a higher value market that existed, the question is how do you get people who don't have access to that market into that higher market. So people knew about the high value super markets in Kiev, they knew about the trade of going from Crimea up to Moscow, it's just that there are certain actors, market actors that have access to that particular market and others that don't. So the question really is from the point of, "Hmm, what are they doing?" right? And being able to work with people who don't have access to talk about how could we do that, how could you do that. So that facilitation piece is important.

In terms of then the ongoing service that happens in the midst of this, there's a couple opportunities there. One is that we're working with local partners, right, local organizations that actually exist already. So by working together in the midst of that, these are entities that were already there, these are entities that have built their capacity, built their mentality; the whole idea of design thinking has impacted them and how they actually do their work. So the whole idea then of thinking of themselves a little bit more as business services and consulting groups has been interesting. So they're taking on a bit of a different form as well.

The other piece that's interesting too is part of our extension actually had a publication, and that publication went out to a variety of people, and there was at least 7,000 subscribers. But overall we put out 10,000 product, pieces of product every month. So even though there's 7,000 direct subscribers that receive this through the mail distribution, there's an extra 3,000 that get places in different areas. That publication is now actually getting started as a publishing company. So the gentleman who is on our staff is getting set up now to actually run his own business, to create publishing not only for that particular newsletter and publication to continue, but also for some other places as well. So we've had BASF and Beyer come in as fertilizer and input suppliers and be able to say, "Hey, we want to sell advertising space into this particular publication. Can we do that?" We can't do it as a project, but he can do it as his own business entity, right? So creating a new business entity and have that launch off is one place where that particular interaction continues, and now it's getting continued from advertising revenue, from subscription revenue that he can

now raise as well. So that's an example of a service that's been continuing on in the midst of it as an actual viable business entity.

So hopefully answered that. Okay.

Audience Member: Hello. Antonio Calsava with _____ Consultants. Thank you for your time; it's been a very enlightening presentation. My question has a couple of topics. One, you mentioned the project basically provides some sort of subsidy in some areas to jumpstart some activities. If you could please highlight maybe a couple of examples of how that has helped you to do further facilitating. And also as you have this success with some of the aggregates, is there anything happening or being planned for standardization in regards to quality standards that may lead into probably branding from certain regions or areas that would attract more buyers because of the standard of quality, the cold storage, you know, good management of cold storage and so forth?

Male: Yeah. So I brought back the causal map here, because what you're addressing is actually two areas in that causal map. One is that link to traders, because that's where people really understand what does the end market want, and then as I start to grow how do I start to differentiate what I have from others as well. So that issue of branding has been interesting as different business entities, these cooperatives and partnerships are starting to say, "How do I differentiate myself from somewhere else? How does that affect my packaging? How does that affect in terms of my certificate of origin?"

The sources in terms of these geographically are high-value sources. There's a lot of demand from Russia and a lot of demand from some of the higher-value markets in Kiev for horticulture produce in this particular area. So that in itself is a huge draw. And then for these different market actors then becomes a point of how to then, I go ahead and do that. So yes, that's something that's part of that iterative discussion of how do you make things a little bit different, how do you get that particular market edge.

In terms of the subsidies, MEDA's used the subsidies in a variety of different areas to really address the issue of incentive, right? So if you're going to put something new on the market, how is that really going to be priced? What's going to induce someone to actually adopt this? And in some cases in focus groups you can kind of go, "We don't need to do a subsidy for that particular market segment we're looking at." For other areas there's a bit of the sense of, "Well, let's go ahead and find some sort of financing or let's find some sort of mechanism, be able to subsidize some of that to induce somebody to try it."

So one area here in our causal map is this issue of access to finance, right? So for us we thought that's going to be really important for somebody that's going to be adopting new technology. When we first looked around in that very early piece of interacting we had assumed that there would be some viable ag financing that would be available, and we found, no, there actually was not; there was not many banks actually looking to step into that piece. So for us we took a bold step of creating an actual leasing company where we could then go ahead and move money through the midst of that. For MEDA, when we do that, those are intended to be ongoing concerns. We'll see where that actually goes. Whether that actually starts to continue on its own or whether it's purchased by a bank is a different issue.

We've actually now been running for two-plus years and have been able to finance some of the different pieces here. It's been interesting to see the demand actually now coming for some of those leasing products. So you can lease a – purchase into the asset and it works the same way. So if you put a cold storage unit it's not outright owned until the whole leasing arrangement is completed, then it can be fully owned. There are tillers and some other pieces, drip irrigation and some other production inputs that are based on a different term in the midst of that as well. But what's been interesting is through its interaction it's starting to get noticed by some of these commercial banks.

And so we recently had a commercial bank come to us and say, "Hmm. We're interested in learning from you as to how you actually extended in this particular market," so for us then we start to toy with well, how could this actually play out. Right? Does it make sense then to enter into helping the bank figure out how to do this or is the bank possibly interested in an investment in purchasing that particular leasing company and how that leasing company works and bringing it into itself? So there are all sorts of different opportunities in the midst of playing that out, but again, the issue is trying to respond to the market, to try to do something. Some of the original cold storage units did not work as well; it goes back to the failed unit, and had to be adapted in the midst of that. But again, having an innovation fund where we can test something and work with something, again, was highly valuable to the midst of that and I really credit SITA with the opportunity there.

Female: We're going to take another webinar question.

Female: Question from James Horschmidner. He's with Vitamin Associates. "Nick asked if possible explanations for that apparent discrepancy between actual changes in farmer income and server responses. How much of the perception response is cultural conservatism?" And James said he doesn't know the Ukrainian rural culture well, but in many

countries rural people tend to be somewhat reserved in their expressed enthusiasm.

Male:

Yeah. So what's interesting here is we're dealing with reported data, right? So this leads us back to all sorts of different questions. Hmm, how was the survey? Right? Was it a good survey to start with? This should be leading back to all those questions of why. What's interesting here is there is a perception, as they reported, that they didn't get a better price, but based on the data that they reported, wow, those that aggregated really did well. So if you're into statistics, the bottom side of that, you've got the F-critical piece of 3.8. You've got to have an F statistic that's past that, right? So we have 10. That's huge. So those that actually did aggregate really did increase their revenue. So there's, again, probably a lot of pieces to that.

My initial thought to that, it has to probably do with there's probably more quantity that's actually being passed through here. Those that didn't aggregate, where did they sell to? They sold to the local markets, they sold to the roadside, where there's a lot of waste. Okay? So that's a thought, that's a hypothesis; we get to test it. We need to go back and figure out. How do we do that? You go back to focus groups. So again, back to the question in the back, we're not that smart, right? We need to go ask the question why; why is this, why is this, why is this, why is this? And going back to people and interacting them and ask them, "Why do you think this might be?" and specifically know who did well, who did not really would start to uncover that a little bit more. So that leads us back into that iterative cycle, leads us back into figuring out how can we go ahead and improve this.

And if in fact we actually find out that the data is good and then it would lead us back to this issue of perception. Well, is price really a driver here or is having the quantity being a driver here? Okay? So that would lead us back to our causal map and have us think a little bit differently about some of these different pieces.

Female:

We're going to take one more question from the audience and then close. But feel free to stick around and continue informal discussion. Also, if you had any questions that didn't get answered, please do go to www.Microlinks.kdid.org/breakfast, scroll down, there's a conversation area and you can leave a comment; that's where you can leave your question and we'll get Nick to respond to that.

Audience Member:

Hello. My name is Andre Zinsuk. I was yes, Ukraine business counsel of a trader's association that works with CS companies doing business in the Ukraine.

Male: Great.

Audience Member: My question is what barriers do you see to have access to finance? One of the issues that you mentioned was land ownership rights, and we see that some of our bigger agricultural companies as well as small farmers see this as an obstacle to get financed, because you cannot use land as a collateral to get loan in bank and have to go around that. Thanks.

Male: And it's up here in our influence, right? So you mentioned land rights. I would go too above that; it's moratorium right now, right? That's a huge constraint in that particular market. So when you're dealing with ag financing and you're thinking about collateral and you think about banks putting money into the midst of that, that land moratorium is really restricting a lot of business, not just horticulture, but with grains as well, right? So you're dealing with huge opportunities in Ukraine in terms of production, hugely fertile, viable land in the midst of that, but it's stuck up in a lot of this issue. So talked about quite a bit, right? Yeah. So that land moratorium will be an interesting piece in terms of how it's played out.

Yeah, one example in terms of the overall market system and the influences that are upon it, and then having that link back into what interacts in terms of banks willing to engage and financing. So good.

Male: One of the things I like about being the facilitator is I get the last questions. Usually I have to sit quietly, and this way I get mine in there in the end. My colleagues and friends and I discussed the new design thinking and innovation and learning cycle projects, and the question we have that we keep coming back to is expectations. Development has been going on for 50 years, people expect money to flow, things to happen, results to happen very, very quickly. That's at the beneficiary level, at the business community level, the NGOs in the community and also the donors. Do you feel with this project and the success that you've had that you ran up against any of those expectations for faster results while you were trying to say, "Wait a minute, but long-term success comes from this analyzing and adapting"?

Male: That's a great question.

Male: And you have a great answer.

Male: Well, I'll give you an opinion, whether or not it's a great answer or not. I do think that there are issues in terms of the contracting that create general constraints, right? Because it creates this situation where you have those that have been contracted to come and saying, "Okay, we've got to deliver. We've got to hit our numbers that we put in our performance management framework, and those numbers are five years out. So how do

we hit those numbers to make sure that we look good?” And so what some people do is how do you measure it, right? So what’s a client? All right. I put direct clients that we interact with here, 5,500. But I’m sure if we wanted to use that indirect piece, we were joking about this the other day over dinner, some colleagues and I were saying, “Hey, we could actually hit 10 billion people.” Because who actually consumes this? Right? And obviously there’s fewer 10 billion people in the world, but it was meant to kind of exaggerate the piece of that, is who is an indirect piece in the midst of it.

So it’s part of the difficulty in the midst of that. So if there is an opportunity in the contracting to be able to look at yearly pieces and to know that DFIT is explored with this a little bit with the Prince II mechanisms, I think that that’s very helpful. SITA is interacting with us a little bit more in Ghana on some of that as well. So rather than pushing out what are the specific goals in year five or the actual numbers that you’re going to hit in year five, it starts with what’s going to happen this year. Let’s get a strategic piece in terms of what might be headed down the track, but let’s really work at that yearly piece, what happens in that yearly work plan, what are you going to hit this year and how you continue to grow. So then you can have that interactive diagram discussion of really pushing things that actually happen.

But you’re also dealing with real risks in the midst of it and you’re dealing with where you’re actually at. ‘Cause there’s all sorts of different external shocks that happen, there’s all different pieces that can interrupt that, and from the contracting side you want to say, “Oh, it wasn’t us. It was something else that happened.” So being able to create that partnership dialogue in the midst of that I think is key.

The other piece that’s in the middle of that as well is the whole issue of the innovation fund. So the innovation fund was really useful for us to be able to look at as a tool to test and work with, and there was not a push from SITA, expense it, expense it, expense it. They said, “Yeah, we’d like you to use it because it’s there, but we want you to use it in wise stewardship. Okay. Don’t”-

Male: And you mentioned you were able to wait almost two, three years to begin to really apply it.

Male: Well, en masse, yeah. En masse. And I do know that with a similar project in Ukraine, that innovation fund had been taken away from the project by the donor from different cuts. And so we’re looking at that project going, “Oh wow, what a bummer. That’s too bad,” because that’s a vehicle for them to be able to test and do work with, but not having that innovation fund has now severely constrained them, and yet they still have

their five-year targets that they've got to hit. So what's going to happen in the midst of that? That's a discussion that needs to happen from the contracting officer and other people like that. But having that dynamic relationship and trust can really help facilitate that.

So again, my opinion. Maybe not a good answer, but that's an opinion.

Male: Well, and that goes out there for, as Melissa said, you know, please go to the website. I think this was a great discussion, it was a great presentation. Thank you, Nick. _____.

Male: Thanks, Jeff. Appreciate it.

Male: And let's keep the discussion going and please make use of the website, okay?

Male: Yeah, and just thanks to everybody. Appreciate you all showing up. Appreciate the questions. And absolutely. I am merely just a spokesperson for the great team that is in Ukraine, right? So kudos to them and the work that they have done as well.

Male: And thank you, everybody, for getting over here in the morning and participating in this breakfast. All right, have a great day.