



### Finance and value chain development

*This Insight sets out some basic information on financing a venture, and developing value-chains for products. It was prepared in collaboration with Michael Massey, Associate Fellow, Royal Institute of International Affairs (RIIA) for the SEED Initiative, and includes information presented by Maria Alicia Eguiguren (UNDP) and Dominic Smith (MDI) at the SEED 2007 Annual Partnerships Forum*

*The **SEED Initiative** identifies, profiles and researches promising entrepreneurial approaches to locally-led sustainable development in countries with developing economies, and provides partnership building and capacity development through a tailored support programme for start-up sustainable development enterprises.*

*Briefing notes on other topics in SEED's Insight series are available online from the SEED website: [www.seedinit.org](http://www.seedinit.org)*

#### Financing for Partnerships

**Develop a business plan and budget.** A business plan is an indispensable prerequisite for any enterprise and in the early stages also demands a funding strategy. Presenting projects in ways appropriate to financial markets is important for accessing mainstream investment, low interest loans, credit guarantees and/or grants, or a mixture of such vehicles. A business planning process fosters partnership building; it is an effective way for partners to coordinate, communicate and collaborate. The business plan should make clear the extent of funding needed. Costs should not be under- or over-estimated. Value for money is essential if a product or service is going to be purchased.

**Have a clear model for future growth.** It helps, before growing, to have a clear picture of the goal in scale-up or replication, and how it will be achieved. A good understanding of the reasons for the success of the initial pilot or project is essential to be able to adapt the model to different circumstances. Objectivity and clear headedness are needed in order to decide what is and is not possible.

**Consider your capacity-building needs.** Well-targeted capacity building often underpins the successful implementation of a good business plan and ensures the people responsible for the project can maintain ownership in the future.

## Theme 1: Starting and growing a venture

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**Consider your business model.** Partnership business models must include strategies that consider both tangible and intangible assets, and different organisational forms - which could be loose partnership or a more hierarchical corporations. Often, different organisational and legal entities need to be formed in order to access different kinds of financing, and such developments take significant time and expert resources that most partnerships do not have at their disposal internally.

#### **Evaluate and monitor progress**

Indicators are important to measure progress and the effectiveness of a venture and its scale-up. Using and reporting on them fosters a learning culture and is useful to the partnership in question, as well as to others.

SEED's Insight's on monitoring and assessment may be helpful and are available online at [www.seedinit.org](http://www.seedinit.org)

**The role of business expertise.** Good places to start in identifying businesses with potential interest in contributing to partnerships or their development are the growing local networks of the World Business Council on Sustainable Development, and the UN Global Compact.

**Demonstrate and communicate success.** Without imaginative, sound and compelling communication, entrepreneurial partnerships cannot succeed. Developing measures of success and bringing achievements to the attention of relevant new partners and the market are essential steps in scale-up and replication. Success breeds success, and others will want to be associated with it.

**Identify likely finance sources.** As well as receiving income from a good or service, alternatives to raising money should be considered:

- borrowing (short or medium term loans)
- donations in money or kind
- money combined from the group of partners.
- other appropriate partner(s) might be:
  - central or local government
  - private sector
  - international cooperation
  - banks, cooperatives.

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### Value Chain Development

A value chain means all the direct and indirect activities between the production and the consumption of a product. Value chain development involves a broad range of actors and actions rather than an examination of a partnership's own activities and products in isolation. It helps to identify and develop strategic partnerships necessary for the initiative's growth, it can help to identify economies of scale, and it can help to meet the requirements for certification and national or international standards.

#### *Important elements of value-chain development*

- trust and long-term relationship/contract building
- sharing of information, rather than being possessive about it
- identifying and working with facilitators nationally and internationally
- identifying good partners at the appropriate scale
- ensuring good quality and consistency of the product or service
- having a thorough knowledge of the product or service
- providing good samples
- trying not to do everything oneself
- having a plan for how to respond to scaling up requests

Market research is a key success factor in value chain development. Partnerships have to be prepared to accept that the market demand could be different from their concept: flexibility is key.

While it is crucial to find suitable specialists and knowledge gatekeepers, going to the market directly is highly recommended (at least once), as well as developing a contact network in the potential market and using personal contacts where possible.

Some of the challenges of international value chains (as compared to national value chains) can be major differences in scale, volume requirements, restricted margins and value adding opportunities in-country. Regulatory requirements, and certification to meet specific standards are usually expensive and can take a lot of time. But where regulation exists, there can be no way around it. For some markets, certification is essential and can be extremely worthwhile. Overall, it is very important to dedicate enough time to do the necessary research and to try to learn from others, and possibly work with other partners.

#### SEED Partners

SEED is a global network founded in 2002 by **IUCN** (the International Union for Conservation of Nature), the United Nations Development Programme (**UNDP**) and the United Nations Environment Programme (**UNEP**). Major Supporting Partners are the governments of **Germany**, the **Netherlands**, **South Africa**, **Spain**, the **United Kingdom** and the **United States of America**.

