



ASHOKA INNOVATORS FOR THE PUBLIC

## Hybrid Value Chains: Social Innovations and the Development of the Small- Farmer Irrigation Market in Mexico

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Global Poverty and Business  
Approaches

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# Content

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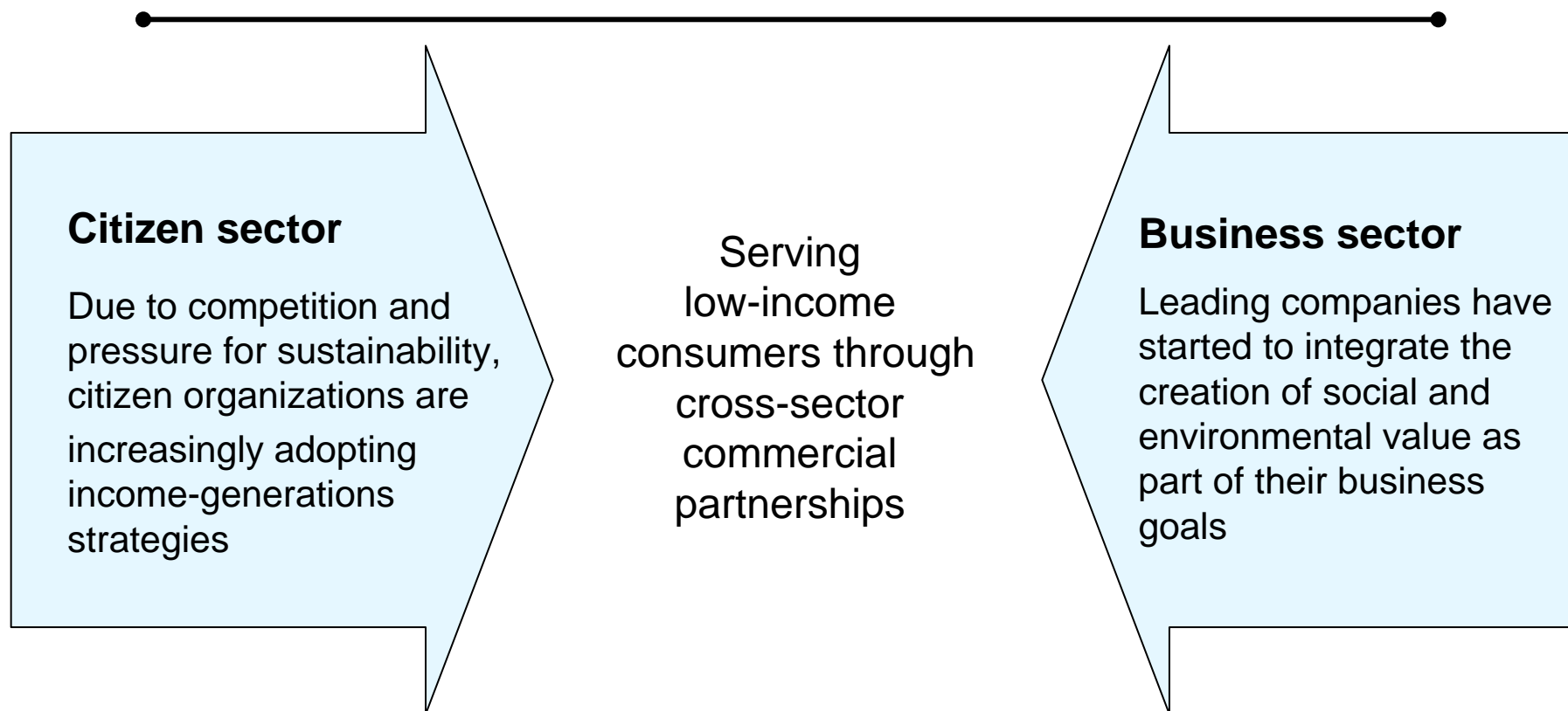
- **Hybrid Value Chains and Social Innovations**
- The Mexico Case: Small-Scale Irrigation
- Moving forward

# Larger trends are creating an enabling environment for a new type of cross-sector partnerships



## Creation of social value

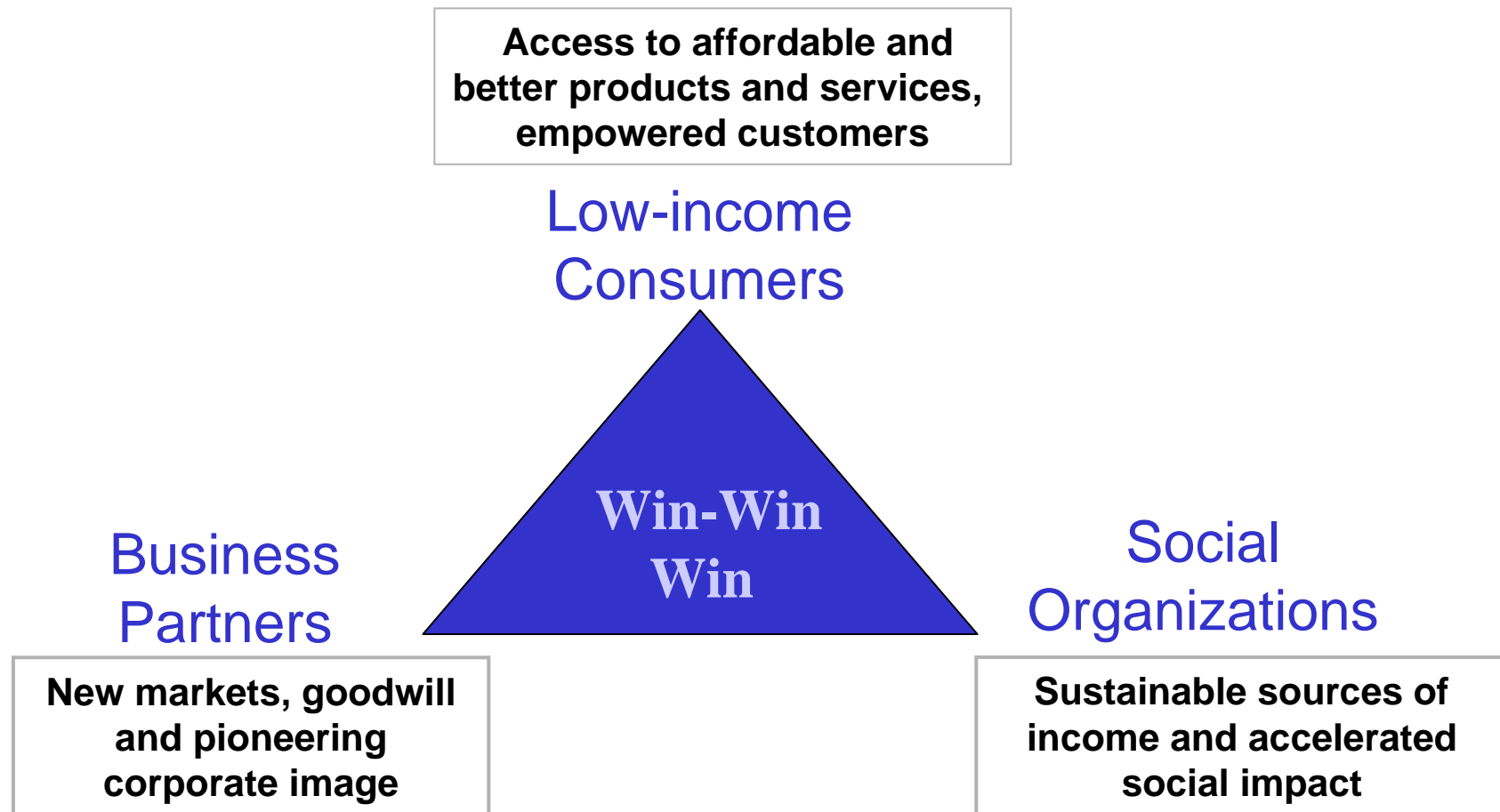
## Creation of economic value



# Our goal: help develop Hybrid Value Chains, a new type of partnerships to serve low-income markets



Creating social and economic value for low-income consumers, business partners and social partners:



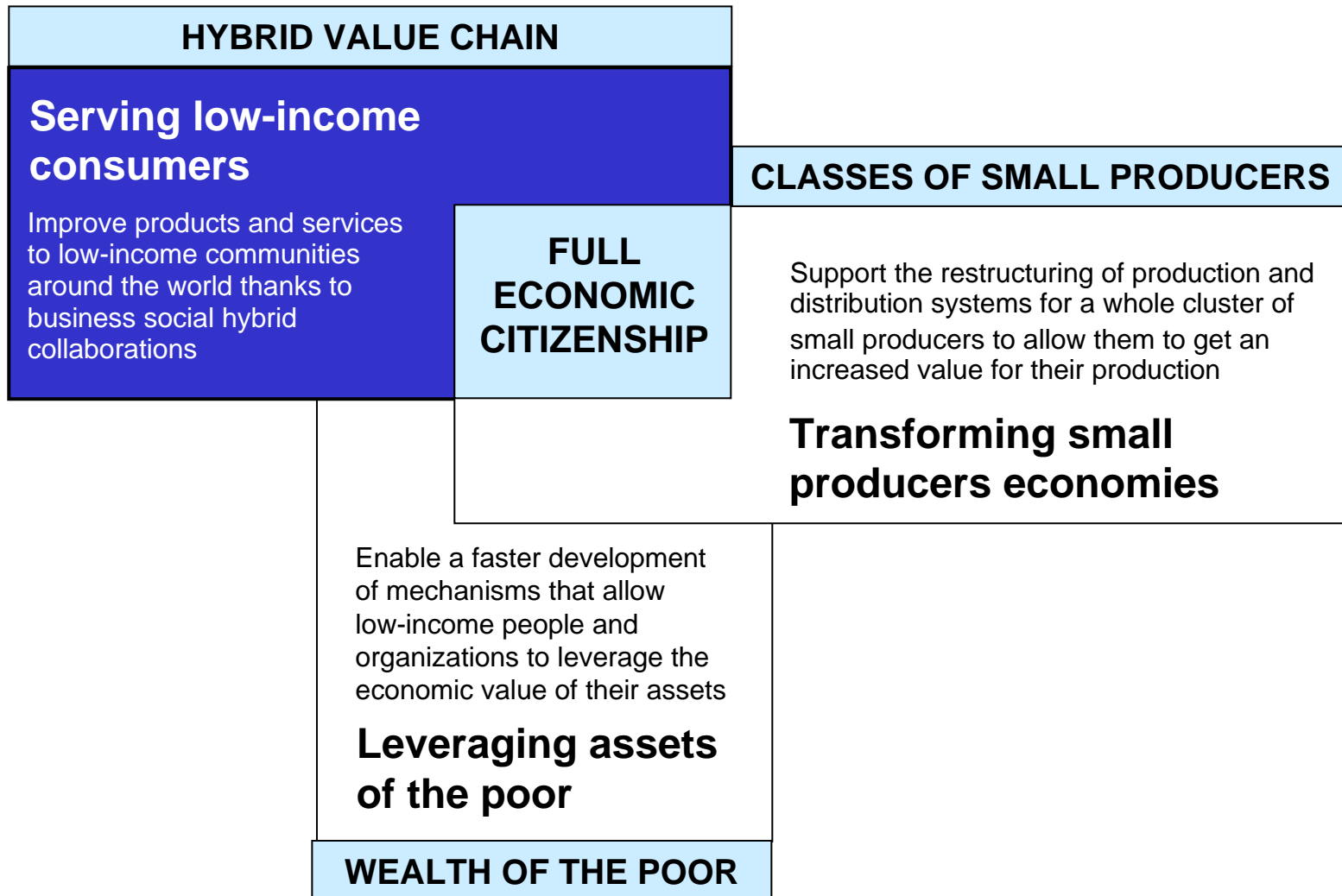
# Principles emerging from the work of social innovators



Factors/ Principles	Limited purchasing power of individual clients	High volume business based on small (even tiny) individual transactions	Poor understanding of the human and social capitals of low income communities
<b>Principle #1.</b> Design products and services that tap into the wealth of poor	“World Class Quality at Affordable Price” <i>David Green (*)</i> <i>Health (Global)</i>	“Low cost technology” <i>IDE</i> <i>Agriculture (Asia)</i>	“Acquiring Technology through Micro-Leasing” <i>Fabio Rosa (*)</i> <i>Energy (Brazil)</i>
<b>Principle #2.</b> Change radically the logic behind your business model	“Multi-Tiered Pricing Model” <i>Rebeca Villalobos (*)</i> <i>Health (Costa Rica)</i>	“Group Micro-Lending and Demand Aggregation” <i>Prof. Muhammad Yunus</i> <i>Financial Services</i> <i>(Global)</i>	“Leveraging Social Networks” <i>ICICI (**)</i> and <i>CSOs’</i> <i>Financial Services (India)</i>
<b>Principle #3.</b> Leverage the power of communities as both consumers and producers	“Shared Purchasing” <i>Grameen Telecom (**)</i> <i>ICT (Bangladesh)</i>	“Transforming economies of Small Producers” <i>Dr. Verghese Kurien</i> <i>Dairy (India)</i>	“Intellectual Property of Intangibles” <i>Ron Layton (*)</i> <i>Coffee Production</i> <i>(Ethiopia)</i>

\* Source: [www.changemakers.net](http://www.changemakers.net) – Market-Based Strategies that Benefit Low-Income Populations

# Advancing Full Economic Citizenship through a three-prong approach



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# Existing Value Chains are not designed to serve small farmers markets: a package of integrated services is needed



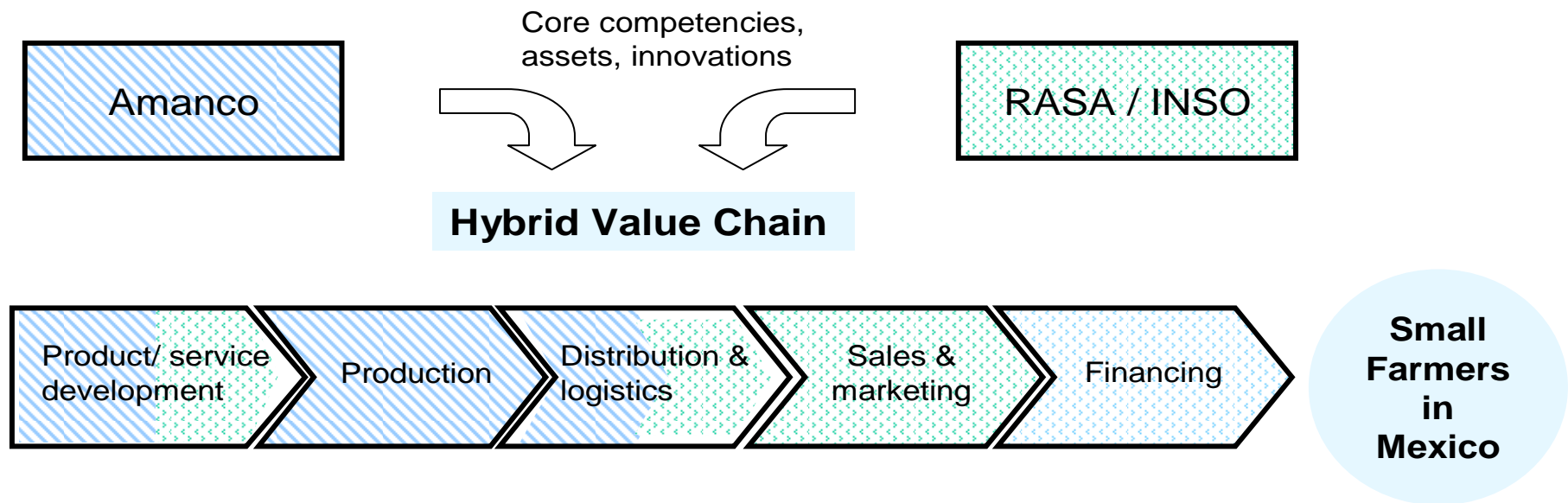
Irrigation Sub-sector Value Chain Steps	Medium and Large Farmers Market Segment currently served by Amanco	Small Farmers or BOP Market Segment
Product Development	<ul style="list-style-type: none"> <li>•State-of-the-art solutions designed for large farmers and their needs readily available and affordable</li> </ul>	<ul style="list-style-type: none"> <li>•Most solutions available in the market are not affordable because they require an upfront cash investment and were not designed to address needs of small farmers</li> <li>•Reliance on “makeshift” solutions (e.g., widespread use of plastic hoses or water channels made with shovels by hand)</li> </ul>
Production	<ul style="list-style-type: none"> <li>•Highly efficient and productive manufacturing facilities</li> </ul>	<ul style="list-style-type: none"> <li>•Very high relative cost of inputs given the type of home-made solutions</li> </ul>
Distribution & Logistics	<ul style="list-style-type: none"> <li>•Network of 200 specialized value added resellers providing customized irrigation solutions fitting the specific conditions of each farmer’s terrain</li> </ul>	<ul style="list-style-type: none"> <li>•Only informal and highly inefficient distribution channels</li> <li>Inputs are bought through small local retailers who tend to have high profit margins</li> </ul>
Sales & Marketing	<ul style="list-style-type: none"> <li>•Purchasing decisions are made on the basis of technical specifications not price</li> <li>•Marketing materials used are highly technical</li> </ul>	<ul style="list-style-type: none"> <li>•Purchasing decision requires persuading the farmer first that he or she can have a more profitable farm not technology</li> <li>•Tailored marketing materials do not exist</li> </ul>
Financing	<ul style="list-style-type: none"> <li>•When needed, financing is secured directly by clients through local commercial banks</li> </ul>	<ul style="list-style-type: none"> <li>•Do not meet conditions of financial institutions or approval process is too complex and costly. A financial “broker” is needed</li> </ul>
Marketing of Agricultural Production <sup>[1]</sup>	<ul style="list-style-type: none"> <li>•Client are well informed about market conditions and maintain direct relations with potential buyers</li> </ul>	<ul style="list-style-type: none"> <li>•Clients are dispersed and require an intermediary capable of aggregating production and negotiating on their behalf</li> </ul>

# Background, roles and “the deal” of the Amanco/ social entrepreneur/Ashoka HVC partnership



	<b>Background</b>	<b>Role</b>	<b>Deal</b>
<p><b>Small -scale farmer</b> Becomes an empowered consumer and increases his/her income significantly</p>	<ul style="list-style-type: none"> <li>• Over 1 million small farmers (less than 4 hectares) could benefit in Mexico alone</li> <li>• Major opportunity to increase productivity and reduce rural poverty</li> </ul>	<ul style="list-style-type: none"> <li>• Learn about credit opportunities for investment in farm; provide required documents</li> <li>• Make purchase decision and pay 10% of costs upfront in cash</li> </ul>	<ul style="list-style-type: none"> <li>• Access to irrigation systems at fair price plus value-added services like financing, commercialization and technical assistance</li> <li>• Doubled or tripled incomes</li> </ul>
<p><b>Amanco</b> Water distribution company opens an underserved market</p>	<ul style="list-style-type: none"> <li>• Leading Latin America company providing water solutions</li> <li>• Part of Grupo Nueva conglomerate; 2004 revenue US\$1,300 million</li> <li>• Chairman mandate that 10% of revenues come from BOP by 2008</li> </ul>	<ul style="list-style-type: none"> <li>• Product and technical training</li> <li>• Pricing and quotations</li> <li>• Marketing support (e.g., materials)</li> </ul>	<ul style="list-style-type: none"> <li>• New rural distribution channel for serving small farmers profitably</li> <li>• US\$ 1 million in sales during the pilot phase</li> </ul>
<p><b>Social Entrepreneurs</b> Serves small farmers while creating sustainable source of revenue</p>	<ul style="list-style-type: none"> <li>• Arturo Garcia: organization RASA; dedicated to increasing economic power of small farmers in coastal Guerrero area</li> <li>• Juan Jose Consejo: organization INSO; dedicated to the conservation of water in Oaxaca area</li> </ul>	<ul style="list-style-type: none"> <li>• Sales and promotion (aggregating demand)</li> <li>• Technical support to farmers</li> <li>• Leveraging gov't financing</li> <li>• Partnerships with crop-purchasing companies and trainers in organic farming</li> </ul>	<ul style="list-style-type: none"> <li>• Larger social impact and commissions to be invested in other programs that require subsidies</li> <li>• 35% discount on list price creates commissions</li> </ul>
<p><b>Ashoka</b> Acts as a business/ social broker</p>	<ul style="list-style-type: none"> <li>• Social sector organization dedicated to creating a globally-integrated and competitive citizen sector</li> <li>• 1600 social entrepreneurs (Ashoka Fellows) in global network</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitates Amanco and social entrepreneurs' partnership</li> <li>• Barrier-remover/problem-solver</li> <li>• Systematizes learnings</li> </ul>	<ul style="list-style-type: none"> <li>• Contributes to accelerated social change</li> <li>• 1.5% commission on total sales of each new rural distributor for 3 years</li> </ul>

# Hybrid Value Chain partnership to develop irrigation market among small farmers in Mexico



*The combination of skills and assets of both the company and social entrepreneur together create a new value chain for irrigation systems that meets the unique needs of small farmers in Mexico. This includes providing an integrated package of services to small farmers.*

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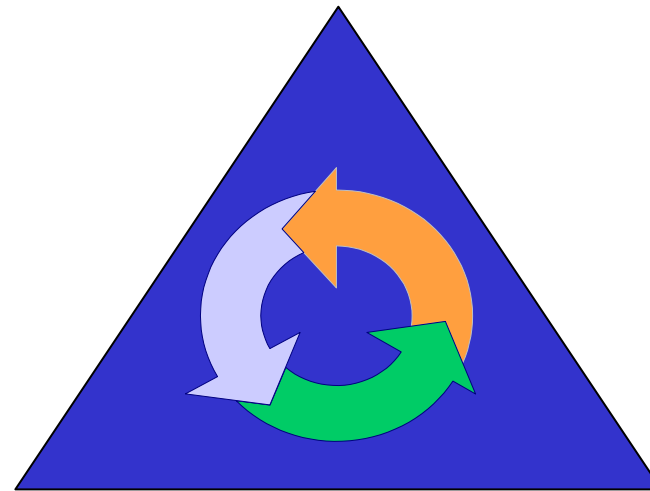
# Our vision of new roles for low-income individuals, businesses and citizen organizations

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**Low-income consumers** both benefit and help to shape local to global economies

**Businesses** deliver affordable products and services to low-income consumers as part of their core business strategies



**Social organizations** succeed in creating and spreading sustainable and innovative solutions to serve low-income communities

**Competition and commitment to social change** continue to advance the most effective ideas, people, businesses and social institutions.

# Examples of Research Questions that would allow to advance Hybrid Value Chains collaborations

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1. Under what conditions is the Hybrid Value Chain approach more effective to maximize business results and social impact? In what industries? For what type of products and services?
2. What are the most effective ways of engaging business and social entrepreneurs in the development of joint commercial ventures? What type of hybrid language would help underscore the new nature of these collaborations?
3. If the citizen sector contributes to the creation of new wealth for private investors, how can we then value economically their contributions? How to value social capital and the intellectual property embedded in most social innovations?



Learn about Ashoka by visiting our websites:

[www.ashoka.org](http://www.ashoka.org)

[www.changemakers.net](http://www.changemakers.net)

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