



# Growing Gifts

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## Addressing Rural Poverty through Business Development

### Introduction

In Jacqueline Novogratz' book "The Blue Sweater", she tells the story of founding a microfinance bank for women in Rwanda. Part of the difficulty she faced was that people wanted to make grants to the poor rather than provide loans. It mattered not that the grants were not sustainable, that the poor were seeking loans, or that the impact could be spread farther. It is our instinct to give rather than respecting a person's dignity and capability by investing. A nun that Ms. Novogratz worked with, Sister Constance, said it plainly, "It doesn't feel as good as grants, but the women will learn and grow stronger." And really that is the problem: it doesn't feel as good to us.

Sister Constance also said something else that I liked. She said, "We are not giving hand-outs but are bringing forth the gifts inside the people themselves."

Beautiful. It's not giving gifts; it's growing gifts.

It's not our gifts; it's theirs. We are bringing them out by providing investments to meet their needs – not ours. Sadly, Sister Constance was run down and killed by a driver, probably for her work to help women. But her insight is life itself to people in the developing world.

Growing Gifts.

We have named our village effort, "Growing Gifts" after this poignant insight.

### Finding Gifts

Although we were told by most that we were wasting our time to ask 'uneducated poor' villagers how to invest in their future, we did anyway. We were following two basic principles. The first is that success is difficult and elusive; it takes your mind and heart and hard work to make it happen. You don't get that by telling people what to do. You get it by tapping into their Dreams and Visions. We didn't believe that any ideas of ours could succeed. It needed to be their own. Second, we think that asking shows basic human respect and a right of free persons to determine their own future. Anything else would be patronizing and degrading – doomed from the start. For example, I began to object to my parents telling me what to do about age 15 – not that I was bad – I just wanted to be treated like an adult.

As we have asked we have been rewarded with brilliant 5 year plans that are sophisticated, comprehensive and even subtle. We don't expect them to write classic business plans; we do expect them to know how to succeed. And they do. The real definition of a subsistence farmer is someone who is surviving, even thriving in the most difficult economic conditions on earth. They are resourceful, clever, far thinking, and hard working. And they know how to succeed in their own environment in ways an outsider would never think of.

It doesn't mean that we don't have something to contribute. It means we start with *their* dreams, *their* gifts, and we grow them. Growing Gifts.

The improved workability of this approach becomes immediately clear. One NGO we know implements similar programs. Instead of asking they tell. Their experience leads them to expect 20 people in a village to join their program in two years. In contrast, we have villages where more than 500 are committing after a few meetings and the village is dividing itself into 20 or more groups to manage the membership. And they are taking the program to suburb villages and nearby villages on their own and without prompting.

## Structural Problems

### Broken Value Chains

A common problem in most industries in Africa and the developing world is that the value chains are broken. If you trace products from raw materials to consumption, you find many places where there is dysfunctional or broken links. This is true of the food value chain, as well. For example, 40% of the food that is grown in Tanzania is left to rot and is never consumed. Meanwhile, hunger persists. THE PROBLEM IS NOT A SHORTAGE OF FOOD. The problem is that the value chain is not functioning well.

The reason for the broken value chain is the lack of small businesses – that is, the businesses that hire people and have between 5 and 100 employees. Businesses like this have real operations with substantial infrastructure. Their investment requires healthy supply links so they work to support the value chain. This might be contrasted with a typical “trader” that buys and sells within value chains, having no real organization, structure, or reliable continuity. That is by definition a weak link in the chain. Weak or broken links are great place to consider investing.

### Traders

We have studied traders at some length; their incentives don't lead them to effectively support the value chains in which they participate. Often most of their profit comes from associated loan shark activities. As a result, most factories in Tanzania are operating at about 20-30% of capacity. For example, we have studied the corn/maize value chain in the Iringa district in central Tanzania, one of the best places on earth to grow corn. Yet the mills are unable to effectively source the corn they need – it is their number one

problem. Likewise, the farmers are unable to sell the corn they grow – it is their number one problem. Meanwhile, in the city of Iringa you can stand on the roof of a corn mill and see corn. This is how broken the value chains are.

It is worthy of note that the investment process itself forces a value chain approach. Business planning by its very nature must answer the basic supply chain and market analysis questions. In contrast, aid often only looks to solve a spot problem. For example, consider a typical aid project such as teaching people to keep bees and harvest honey. In the aid approach rarely is there consideration for the rest of the business issues like food-standard sanitation, packaging, marketing, transportation, or distribution. Investments are forced to think differently because they are looking for returns and hence will follow the value chain far enough to ensure a profit. Aid doesn't have to meet this test; therefore it usually won't. In contrast, business forces certain disciplines and comes with built in success metrics.

### Agriculture First

The key industry in developing nations is invariably agriculture. This is because 70-90% of people are subsistence farmers. Cheetah's agribusiness investment strategy is to identify the weak or broken links in the food value chain and invest in them. This is the highest value place to invest because it serves segments of the value chain. As a result thousands of farmers or tens of thousands of people can be served with even small investments.

Also, we must work our way forward. It is difficult to invest in food processing when the inputs are unavailable. So we must start with farmers.

Investments that target these results have the impact of bringing increased value to food production, increasing incomes, reducing hunger, and providing incentives for continued growth. The national leadership strategy of Tanzania is *Kilimo Kwanza* or "Agriculture First". They are right.

## Basic Strategy

### Holy Grail

Rural poverty is root of most poverty. The large urban slums in the developing world are often a result of the failure of rural development. Therefore, the Growing Gifts program is attacking poverty where it begins. Also, this is where it is most difficult to succeed because rural areas have less education, infrastructure, health care, money, etc. All of these are the elements most basic to economic development. Succeeding in a village environment has been the elusive 'holy grail' of economic development.

### Sustainability

In considering business development among the poor, we have committed ourselves to sustainable projects. From a business point of view we see this first as projects and investments that pay for themselves. We are committed to making investments that

respect the cost of capital. Therefore, we teach people to pay back the investment. That process teaches profitability, which is the foundation of a sustainable business. Moreover, when we receive the investment back we can reinvest it in another opportunity. All of this is good for the people we serve.

It's also good for us. It makes us choose projects that appear likely to succeed while forcing us to address all of the issues required to actually bring a business to success. And it creates built-in accountability. Our projects are all *worthy*. Most of the work we see in the developing world is. However, you can tell if our projects are *working* if they pay their way.

## Agricultural Tactics

As we have studied the challenges to economic development in village agriculture, we consistently find three approaches that address most issues:

1. Unite Farmers: Bring farm production from many farmers together to source inputs like seed and fertilizer, increase value and deliver reliable, consistent and quality supply to food processors and other market opportunities.
2. Preserve Food: including in large volumes and not just flavoring sauces and jams, which are common; and including bulk warehousing.
3. Add Value: move from food commodities to products through improved quality, unique characteristics, processing, etc.

What is needed is economic development with the “heart” of aid; that is, development that also pays attention to the needs and opportunities of the poor and occasionally kick-starts the development effort with a little aid around the edges. The poor are a good financial risk. That's been demonstrated by microfinance worldwide. Now it's time to invest among them with businesses that fill key economic gaps and hire people.

## Village Economics

### Beyond Subsistence

We have been surveying the agricultural production of villages in central Tanzania. Our findings suggest that there is an important distinction between villages that are truly subsistence (they eat all they grow) and those that have begun to sell some of their crops. The latter are thinking about markets, profit, and quality. Once an attempt is made to sell something, a person learns that customers have preferences and can make choices. This is an important lesson. Even in the USA, many companies still are not market driven.

Finding villages that have begun to move beyond subsistence may be an important advantage to an investor. Not only have they begun to appreciate market dynamics,

they have something to sell. That is, there is money coming into the village, even if it is by world standards a small amount. It takes money flow to make an investment succeed; for how can an investment have returns if there is no money? On the other hand, the experiences of some suggest that many villages will successfully respond to an opportunity when presented.

### Listening

When we ask villagers what they want to do, they usually ask us to solve their problems. They don't want handouts, they want opportunity. They are looking for a way to succeed with dignity.

We then explain that although we will join with them, they must take responsibility. In every case they already know that unless they as farmers unite, they cannot achieve the results they need. We have been surprised to see that farmer cooperatives are nearly inevitable. Realize that in Tanzania farmer cooperatives have been models for stealing from the poor for about 40 years so this is not an expected answer. However, both historically and cross culturally farmer cooperatives have been the natural answer.

Next, they already know what they best produce; what are their *gifts*. They naturally seek to grow this gift and then expand from there. (Growing Gifts!) So they are interested in cooperative approaches to the local agricultural outputs. From there the villagers' plans blossom and take on interesting and sophisticated ideas.

This is bottom up development, not top down.

### Building a Local Economy

When we join with a village, our mutual objective is to take the agricultural output and turn it into CASH. The result of this is kind of magical. If a person trades some corn for a chicken, both traders eat only once. However, if the trade is made for money, then the money is traded for a chicken and then the money is traded again and again. In essence, the chicken is eaten over and over. Studies in American towns in the 1970s suggested that money turned 10 times before it left a town. Villages in Africa are usually more remote than that so the money should turn even more. That's killing a lot of birds with one stone.

Once money starts to flow, an economy starts to develop. Our surveys show a direct correlation between agricultural products being taken to market and non-farm businesses in a village. With an economy – even a small one – so much is possible: sustainable local health care, biogas infrastructure, education, mosquito nets...

Just plain quality of life. Changing lives: that's what we're really up to.

Won't you join us?