



Theory of Change

Colophon

First published in 2013 by the Hivos Knowledge Programme
Humanist Institute for Co-operation with Developing countries
P.O. Box 85565 | 2508 CG The Hague | The Netherlands
www.hivos.net

Design: Tangerine-Design @ Communicatie advies, Rotterdam, The Netherlands

The publisher encourages fair use of this material provided proper citation is made

This work is licensed under the Creative Commons Attribution-Share Alike Works 3.0 Netherlands License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-sa/3.0/nl/> or send a letter to Creative Commons, 171 Second Street, Suite 300, San Francisco, California, 94105, USA.



Table of Contents

Our Vision and Ambition	5
The World as we see it	5
Unfair distribution of opportunities and economic growth	5
Planetary boundaries crossed	6
Inequitable access to markets, finance, energy, and information	6
Change strategy	7
Assumptions	7
Approach	8
Levels	9
Micro level: Entrepreneurial people in rural areas	9
Meso level: Supporting structures	9
Macro level: Policy level	10
Domains	10
Evaluation, Learning, and Knowledge Generation	11
Assumed Benefits	11
Planet	11
Profit	11
People	11
Encouraging Results	12

Our Vision and Ambition

As Hivos, we believe in a free, fair, and sustainable world where all citizens have equal access to opportunities and resources and where they participate actively and equally in decision-making processes that determine their lives, their societies, and their futures. Women are equal to men on all levels; they are in charge of their lives and deserve opportunities, rights, and power equal to those of men.

The Green Entrepreneurship programme (GE) envisages a world where people have the power to make autonomous choices and own their successes. Poor people in rural areas are not victims, but vital actors and drivers for change, who can improve their own situations and those of their communities, and contribute to the global public good.

GE works towards a situation in which rural production is economically viable, socially acceptable, and sustainable – supporting people, planet, and profit. Such production is geared towards efficient resource use and higher productivity and quality. It enables producers and their communities to enjoy better incomes and employment opportunities and meet daily food needs. This rural production also contributes to increased global food security and sustainable economic development. It enhances environmental resilience and the natural resource-base and pays close attention to such issues as soil fertility, biodiversity, and climate-change adaptation; as such it respects planetary boundaries. It recognises women, and creates equal and fair employment opportunities for women and youth.

In that desired world, rural women and men are able to respond to changes that affect them as well as to initiate changes themselves to improve their lives. Civil society is effective in organising underrepresented people and defending their interests, in holding state and market actors to account, and in developing alternative models that foster more equal, green, and inclusive development.

The World as we see it

Unfair distribution of opportunities and economic growth

Worldwide, almost one billion people live on less than one dollar a day; almost three-quarters of these people live in rural areas. Their livelihoods rely to a large extent on natural resources: for food production, fuel, water, and products from natural forests. The position of rural people, most of whom are small-scale producers (male and female) is weak. Structural inequalities mean that women in particular face substantial challenges: restricted access to and control over productive resources, limited participation in key decision-making processes that affect their lives, and constrained time and capacity to increase their productivity due to additional caring responsibilities and health and education disadvantages.

Investments in rural areas, including in the agricultural sector, have decreased over the past decade. Even though they now seem to be on the rise, they tend to focus on large-scale, export-oriented production, ignoring the production systems on which the livelihoods of rural people generally depend and neglecting long-term environmental sustainability. In addition, such production systems are generally labour-extensive and do not meet the growing need to create employment opportunities especially for the growing population of (rural) youth.

Economic development in rural areas is also seriously hampered by lack of access to energy. Worldwide, 1.6 billion people lack access to modern forms of reliable energy. More than half of them rely on traditional biomass to meet their basic energy needs for cooking and heating, which is contributing to a range of problems such as deforestation, climate change, a high workload for women and children (at the expense of educational, economic, or political activities), and health problems. Lack of access to modern energy sources is both results from and causes poverty.¹ Developing countries increasingly recognise that development cannot be fuelled by fossil fuels and

¹Trade and Development Report, 2010 – Unctad.

are increasingly investing in renewable energy. Energy is still mainly provided to urban areas and industries, however, and largely inaccessible to rural areas and the poor.

Planetary boundaries crossed

Science shows that, since the industrial revolution, humans have been responsible for large-scale environmental change. Planetary boundaries identify margins for environmental impact within which human action is believed to be safe. Three of these boundaries – biodiversity loss, the nitrogen cycle, and climate change – have been crossed, potentially leading to irreversible and abrupt environmental change. Other boundaries are being increasingly crowded.

Staying within planetary boundaries is especially challenging in the face of forecast population growth. Estimates show the need to increase food production levels by about 50 per cent to be able to feed a total of 8.2 billion people by 2030.² Extension of agricultural land at the expense of natural forests is no longer considered an option. It would contribute tremendously to climate change and destroy valuable biodiversity reservoirs, putting increasing stress on the planet's carrying capacity.

Conversely, climate change is threatening agricultural production, while the growing demand for bio fuels is increasingly competing with agricultural production. Demand for food and fuel is rising, while resources are under mounting pressure. Unsustainable production results in degradation of ecosystems and compromises the productivity of land.

Inequitable access to markets, finance, energy, and information

Markets can drive poverty alleviation and more socially and ecologically sound production systems. Globalisation is increasingly influencing markets in developing countries, giving rise to new opportunities for rural people, especially the 450 million smallholders living in these countries.

With high global demand and increasing prices for food, feed, and fuel, and growing need for sustainable production and consumption, there are many possibilities to significantly boost smallholders' productivity and economic position. Reality shows, however, that while prices for food and cash crops have seen steep hikes over recent years, most rural people – and especially women – have hardly benefited. They are generally unorganised, produce at low levels, and have limited access to means of production, information, and financial services, seriously hampering their capacity to negotiate fair prices and supportive policies at national and international level. Women in particular face many barriers to accessing and participating in the market.

In addition to not being able to benefit fully from opportunities presented by globalised markets, there are other downsides to rural producers. Producers are more vulnerable as a result of high price volatility, tough competition with other often more powerful market actors for productive resources such as land, and growing pressure on natural resources including land and biodiversity.

Other markets, especially urban and regional ones, are gaining importance due to a rising demand from a growing population, the need to decrease food and energy imports, and regional trade agreements (e.g., East African Community). These markets are increasingly confronted with similar (quality) requirements as global markets, requiring small-scale producers to expand (through cooperatives and other producer groups), develop their market intelligence, and build internal management systems. Increasingly, the importance of informal markets is underlined as they connect small producers with poor consumers.

Carbon markets are gaining attention in recent years. There is a lot of potential for large-scale carbon emission savings in rural areas. Carbon markets are not inclusive, however, and rural women and men are generally unable to benefit from opportunities to finance improvements.

Rural producers need access to finance. The microfinance sector has not fully lived up to high expectations and has largely been incapable of adequately serving rural areas, especially the agricultural sector and rural women. Mainstream finance considers lending to agriculture "risky", which leaves small producers at the mercy of informal financial markets. The microfinance sector also considers investing in renewable energy – for both end-users and for small and medium

² Who Will Feed the World, 2011 Lucia Wegner and Gine Zwart, Oxfam International.

enterprises (SMEs) – as risky because there is still little experience in and a general lack of knowledge about renewable energy technologies and their benefits and returns.

Positive developments can be discerned as well. Suggested new forms of finance, such as value-chain finance and “financing the missing middle” SMEs, may facilitate rural access to credit. Carbon finance is increasingly offering solutions to support large-scale renewable energy technology dissemination, although this has focused on biomass related-technologies rather than electricity generation. Finally, information technology (IT) drives efficiency by lowering (transaction) costs for services to rural areas. While far from a panacea, IT – and in particular mobile technology – has proven capable of improving the livelihoods of rural people. It can provide access to information, facilitate market links, and provide access to financial services such as insurance and to extension services. Though the developing world is quickly catching up in using information technology, adoption in rural areas is still fairly low.

Change strategy

Hivos sees entrepreneurial men and women in rural areas as a lever for sustainable change: with a more even playing field and focused support, potential rural entrepreneurs can turn their production into viable businesses and be important actors in societal transformation towards a more sustainable and equitable economy at a local and global level. This improves not only their position but that of rural communities and benefits the global community.

GE strongly believes in green and inclusive development. Our approach is based on insights and lessons learned from our earlier work and that of others. We are aware that our insights and the assumptions are incomplete and are likely to change in the future as knowledge evolves.

Assumptions

Rural entrepreneurs can be effective drivers for change. Rural areas and the agricultural³ sector offer opportunities for poor and marginalised people. Most poor people live in rural areas and depend on agricultural activities and natural resources. They are seriously affected by climate change, environmental degradation, and market exclusion, and eager to improve their situation.⁴ Simultaneously, entrepreneurial rural men and women can drive poverty reduction and sustainable natural resource management. Rural people, especially small-scale producers (m/f), women, and small and medium enterprises, are increasingly recognised for their contribution to local and global food security,⁵ to sustainable economic development at national level and the management of natural resources and biodiversity. In addition, significant gains can be realised in the mitigation of climate change, as global agriculture is responsible for roughly one-third of global greenhouse gas emissions. Entrepreneurs reinforce each other’s businesses through trade and competition, thereby vitalising communities. To reach their full potential, rural entrepreneurs need to be supported by appropriate services and an enabling environment that foster their economic and political agency.

The time for inclusive and green development has come. Overall, there is increasing recognition that current economic models need adjustment and that business as usual is no longer an option. Hivos is convinced that a green and socially inclusive economy is the solution for a sustainable future for the planet and its population, in particular for rural people. Entrepreneurial men and women have an interest in inclusive, green(er) development. Their high vulnerability to the growing volatility of both markets and climatic patterns means they need more control over their livelihoods and their businesses. Green(er) production processes offer them this control and are less risky in terms of finance, markets, health, and climate.

Inclusive and green economic development models offer an alternative to mainstream economic development models that do not tackle a number of global challenges such as poverty, equity, poor access to markets for small-scale producers, climate change, and ecosystem conservation. In the

³ Agriculture includes cultivation of crops and animal husbandry as well as forestry, fisheries, and the development of land and water resources.

⁴ World Bank, 2009.

⁵ IAASTD en IFPRI reports.

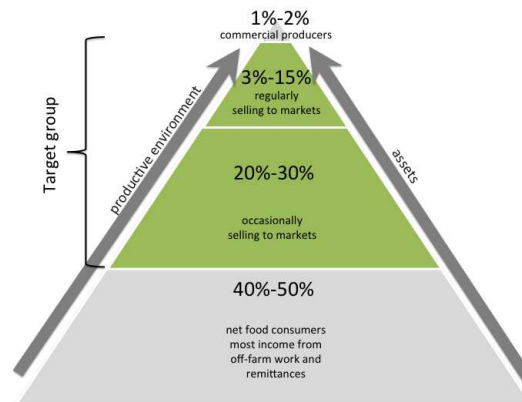
end, these alternative models should be financially sustainable and become viable business models. To prove their value, however, these alternative models need time and investments to mature, which commercial funders are not willing to provide. With initial (public) funding, the viability of these models can be demonstrated. Private sector resources (financial and non-financial) are crucial in achieving economies of scale and stimulating rural economies.

Innovation at micro level is an effective way to bring change. Combining readily available innovative approaches and technologies with local know-how at micro level can develop innovative alternatives for the mainstream. Small, pragmatic piloting on a micro level allows fast learning in order to prove that alternatives are working and to mobilise support for expansion and wider implementation. Starting at the micro level, we search for scalable models to contribute to sustained change and transformation of economies.

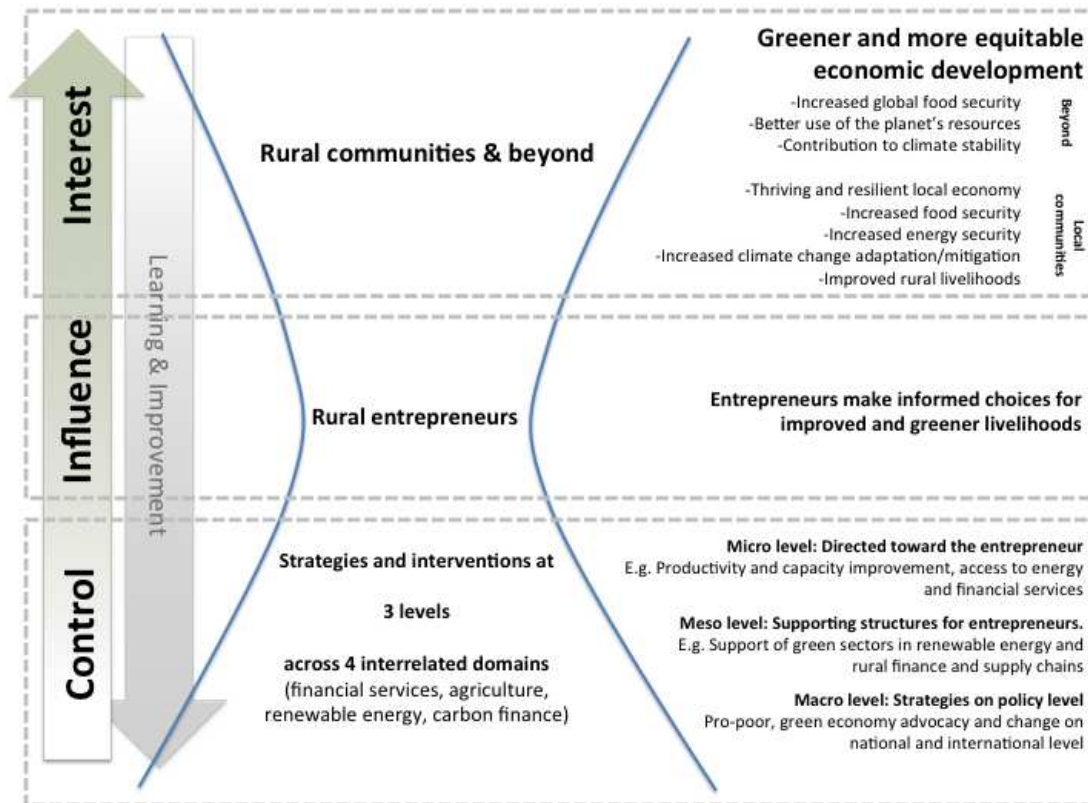
Approach

The Green entrepreneurship programme targets entrepreneurial rural women and men that engage in the market. Our target group is shown in the visualisation below. The pyramid represents the rural sector, with the large base of the pyramid representing people without assets and living in weak and vulnerable productive environments. GE focuses on the middle segment (green) of pre-commercial entrepreneurs/producers. It comprises the about 45 per cent of rural people that regularly or occasionally sell to markets.

To be effective in reaching rural entrepreneurs, a thorough understanding of this group's dynamics, needs, priorities, and challenges is necessary. GE targets this group by intervening on the level of rural entrepreneurship, supporting structures and sustainable sector development and policy-level economic-political agency. While doing this, Hivos' interventions pay specific attention to the position of and opportunities for women, as they face especially limited access to resources such as productive assets, education, finance, and decision-making influence. GE trusts in risky innovations and meets real demands for finance, energy, and information.



We see the connection of actors, sectors, and different levels of our work as our strength. We combine it with the concept of innovation at micro level and seek opportunities for effective expansion. This is achieved by linking public domains such as research and public seed investments with private-sector engagement



Levels

Given the interconnected nature of problems at the local, national, and international levels, GE works with actors at various levels of activity and policy-making. We co-create new insights and knowledge to inform better policy and practice. We work with multiple actors from civil society, academia, the private sector, and governments to generate innovations and to mainstream and expand working models wherever possible.

GE addresses key (f)actors on three levels where changes are needed to achieve sustainable effect at scale. These three levels are:

- 1 Entrepreneurial people in rural areas (micro level)
- 2 Supporting structures (meso level)
- 3 Strategies on policy level (macro level)

Micro level: Entrepreneurial people in rural areas

GE supports the development of rural entrepreneurs' capacity in sustainable production, business development, and access to finance, energy, and markets.

Strategies on this level include assisting rural entrepreneurs with technical and skill training to arrive at more productive, diverse, and sustainable production systems.

GE supports and stimulates producers' organisations to improve their bargaining position in the marketplace and in policy-making processes. Furthermore, GE facilitates improving producer access to production inputs such as (financial) resources, services, energy, and information.

By working with private-sector organisations, GE supports business development among rural entrepreneurs, and creates and facilitates supply-demand links.

Meso level: Supporting structures

GE works to strengthen the necessary preconditions for entrepreneurs by improving supporting structures and facilitates the creation and development of relevant sectors. GE works with non-

governmental and private-sector organisations to enhance the availability of necessary services for rural entrepreneurs. This includes investment in nearby (“one-stop shop”) business development and financial services oriented towards rural entrepreneurs, and facilitating links between producers and other market actors. Making reliable, cleaner energy sources available for processing and value addition increases entrepreneurs’ productivity, whilst supporting the development of energy-related enterprises (e.g., biogas construction companies).

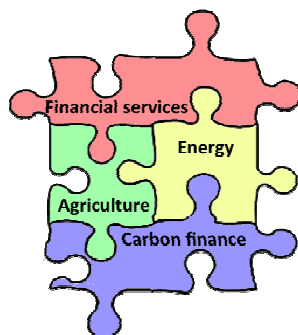
Macro level: Policy level

In the marketplace and in policy formulation the voice of rural people is insufficiently heard and sustainable practices are insufficiently accepted. GE works to improve policies and regulations and to change mechanisms in the local, regional, and global contexts.

Policies (agriculture, trade, energy) do not necessarily differentiate the specific needs of small producers and hence do not cater to these specific needs. We promote supportive national and international policies and structures to improve the context of rural entrepreneurs. We strengthen civil society to push decision-makers to act in the benefit of rural entrepreneurs and to contribute to an enabling environment. We support civil society to move the private sector to embrace and promote supportive initiatives and mechanisms.

Domains

We currently see most opportunities for change in four different domains that, effectively combined, reinforce each other. These four key domains are sustainable agricultural commodity production, access to energy, financial services, and carbon finance.



We regard these areas not in isolation, but rather embrace opportunities that lie at their intersections. It is our challenge to combine these areas in order to get the most effective results by leveraging synergies.

This is reflected in our activities where different types of expertise come together. Financial services such as microfinance or sustainable investments can be used to finance producers to adopt sustainable agricultural practices, or to provide start-up investments for renewable energy projects. Energy and agriculture are closely linked, as producers thrive with better and more reliable energy sources, and, on the other hand, biomass from agriculture can be an input for energy production. Carbon finance has increased in importance, and its role driving sustainable energy provision and sustainable production will continue to grow in the coming years. Carbon finance enables private-sector investments in agriculture and energy with solid business cases through the reduction of greenhouse gas emissions.

Going forward, we plan to work on strengthening the integration of these domains, to stimulate their synergetic impact, and to develop new domains where we see benefit.

Evaluation, Learning, and Knowledge Generation

The current GE programme is the direct result of earlier work and lessons learned.

Although considerable evidence is available to support the assumed positive effects of green and inclusive development, these advantages do not occur under all conditions. Political and economic trade-offs are being made and poor people, particularly women, are certainly not always the ones to benefit. Continuous monitoring and research is crucial to develop strong, pro-poor strategies and expand knowledge of what works under which conditions. For this reason, GE has established close working relationships with a number of well-known research institutes and academia.

Our approach which starts with innovation and proceeds towards expanding successful concepts, forces us to continuously learn and improve. The integration of knowledge development and learning in our programmes facilitate the collection and analysis of evidence to test the assumptions underlying the GE programme, which generates new insights and questions, and shares the lessons learned.

Assumed Benefits

The social, environmental, and economic benefits (people, planet, profit) of green and inclusive development are based on our current set of assumptions. Although presented here separately, it is important to note that they are closely related.

Planet

Expected environmental benefits are more sustainable natural-resource management and biodiversity conservation with future generations in mind. This includes the widespread adoption of sustainable agricultural practices, such as efficient input use, avoidance of harmful chemicals, and (other) low-carbon and biodiversity-conducive cultivation techniques and renewable energy. In this way, rural communities will not only help to mitigate climate change, but will also be better prepared for the effects of climate change (adaptation). In addition, they will have better access to energy, and propel socio-economic development.

Profit

There are expected economic benefits for rural communities and the wider global community, in part as a result of environmental benefits. Problems related to erosion, soil depletion, and pests are effectively addressed, resulting in lower costs and higher productivity and contributing to the long-term viability of the production system. Moreover, increased energy security, better access to credit, and use of on-farm inputs (rather than fossil-based inputs) foster more efficient business operations, reduce costs, and contribute to resilience to market fluctuations. A strong and sustainable local economy also benefits non-entrepreneurial poor/marginalised people by increasing employment opportunities and reducing risks.

People

Green and inclusive development has a range of expected social benefits for rural people in general, and women in particular. They have a broader range of livelihood options and increased access to and control over resources (information, training, natural resources, credit, etc.). This allows them to improve their socioeconomic position and enhance their opportunities to shape their lives and actively participate in decision-making in their societies. Organised small, rural producers are in a better market position vis-a-vis large-scale producers and market participants, and are better equipped effectively to participate in political processes. Improved representation in institutions enables them to participate actively in shaping their future.

Considering that women make up around 70 per cent of the productive workforce in the African agricultural sector, Hivos' interventions can have a large effect on the position of women.

Encouraging Results

In the innovative space that we are investing, we are guided by a set of academically supported assumptions. Our endeavours are often risky, and success is not guaranteed. Our results nevertheless suggest that we are on the right path. Where assumptions appear not to be valid in practice, we adjust our course and embrace the lessons learned.

Hivos has a long track-record in the field of **financial services**. For over 20 years we have contributed to the development of a thriving microfinance sector, and supported many starting microfinance institutions (MFIs) with seed capital and technical assistance to mature and become (operationally and financially) self-sustaining. Of the 30 MFIs that have been assisted in this way, 23 now successfully operate in the commercial market. Moreover, Hivos uses its expertise and network to facilitate access to finance for rural groups that often lack this, such as small agricultural producers (m/f), producer groups, women, and SMEs, and to stimulate the development of an environmentally and socially responsible financial sector. More recently, we've started to orient our support towards MFIs and local SME funds to become better oriented towards SMEs and to operate in more ecologically sustainable, socially inclusive, and gender-sensitive ways. For instance, a programme implemented together with Triodos-Facet helped microfinance institutions in East Africa assess the risks involved in lending for renewable energy technologies; adapted financial products were developed which are now available to customers in Kenya and Uganda.

Hivos developed increasing experiences with another alternative source of finance: **carbon credits** for the National Biogas Programme in Cambodia. The revenues now contribute to funding the programme with an average of €1 mln. over four years. The programme installed 17,000 digesters from 2006 to mid-2012. Carbon credits from the East African, Indonesian, and Nicaraguan biogas programmes have been developed, and will soon start producing revenues as well. The African Biogas Partnership Programme aims to build 70,000 biogas digesters in six countries in six years (2009–2014) and the Indonesian Domestic Biogas Programme has built 8,000 digesters in four years (2009–2012).

Of course the funding potential of this source depends heavily on the prices carbon credits fetch in the market in the future.

In addition, we have strong experience in stimulating and facilitating **sustainable production processes** and promoting **sustainable trade**. Hivos has over 20 years of experience in the coffee sector, and supported the growth of the sustainable coffee sector and the organic movement. Through cooperation with numerous Southern organisations – ranging from farmers' cooperatives to certifiers and exporters, and in alliance with Northern organisations pushing for sustainable consumption, we've significantly contributed to the emergence of sustainable markets, such as coffee (38 per cent of the coffee sold in the Netherlands is now certified).⁶ Our work in this field has also resulted in strong partnerships with the private sector, such as Ecom/SMS in Kenya, and demonstrated significant productivity improvements. In the case of coffee farmers, productivity levels have doubled or triple that low cost (approximately €10 per farmer per year over a period of three years). Ecom adopted the developed approach as a template for their sustainable initiatives worldwide.

⁶Coffee Barometer 2012.

Contact

Humanist Institute for Cooperation
with Developing Countries (Hivos)
Raamweg 16, P.O. Box 85565, NL-2508 CG
The Hague, The Netherlands
T +31-70 376 55 00 | F +31-70 362 46 00
info@hivos.net | www.hivos.net