

# the SEEP NETWORK

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## Value Chain Development and the Poor

### Introduction

#### Abstract

*Markets hold significant power to create or combat poverty. Increasingly, international development initiatives focused on economic growth and/or poverty alleviation are working to open existing markets to poor producers and consumers and make the benefits of well-functioning markets more widely accessible to the poor. The challenge for development practitioners is to promote economic growth strategies that improve the competitiveness of industries. Developing value chains that are within competitive industries has specific challenges when the majority of micro- and small enterprises are extremely poor. This paper draws from the experiences of SEEP members working on value chain development with the poor and presents lessons gleaned from the Value Chain Working Group on-line discussion from February through June 2006.*

A Publication of

The Value Chain and the Poor Working Group

The mission of the SEEP Network is to advance the practice of micro- and small enterprise (MSE) development among its members, their international partners, and other practitioners. It is a member-led organization. To achieve its mission, SEEP promotes lateral learning by providing opportunities for colleagues from around the world to communicate with each other in a collegial environment. To achieve this objective, SEEP encourages and supports professional working groups.

In spring 2005, the SEEP Network assessed how successfully working groups met their objectives in relation to the organizational needs of the network's members. A section of the evaluation form asked members to suggest future working group topics. Several members of the Market Development Working Group (MDWG) indicated interest in a working group on value-chain development and the poor. While the MDWG focuses on assisting micro- and small enterprises to link with growing market systems and on market reconstruction in post-disaster or conflict-

torn areas, the new Value Chain (and the Poor) Working Group (VCWG) concentrates on the very poor in extremely challenging environments where market systems are extremely weak.

Interest in value chains emerged as the field of business development services (BDS) evolved and introduced the idea of developing market-driven support services for large numbers of MSEs. Business development services have been incorporated into a broader approach to market development and poverty alleviation, i.e., making markets work for the poor through value chains. Markets hold significant power to create or combat poverty. Increasingly, international development initiatives that focus on economic growth and/or poverty alleviation are working to open existing markets to poor producers and consumers and make the benefits of well-functioning markets more widely accessible to the poor. These initiatives are enhancing the competitiveness of economies in developing countries by promoting private sector growth and MSE participation.<sup>1</sup>

1. A. Mielbradt and M. McVay, *The 2005 Reader: From BDS to Making Markets Work for the Poor*, ed. Jim Tanburn (Geneva: ILO, 2005); and Centre for Development and Enterprise, "Accelerating Shared Growth: Making Markets Work for the Poor in South Africa," paper commissioned by ComMark Trust, Woodmead, South Africa, 2006.

Value chain development—where there is a business-friendly environment, an established communications and transportation infrastructure, and developed support markets—is significantly different in weak markets where people live in extreme poverty. Developing value chains that focus on improving the incomes of the poor by increasing the value of the return on their labor and reducing the risks for all actors along the value chain has specific challenges.

In order to create a learning agenda for SEEP members on value chain development and the poor, the VCWG identified some of the key issues affecting the implementation of specific SEEP-member projects via an on-line dialogue which was moderated by the working group facilitator. Subscribers to the working group discussed their experiences and shared suggestions, and the results, or lessons learned, from this dialogue are presented here.

## Simple Overview of the Value Chain Approach in Microenterprise Development

To participate in dynamic markets, MSEs require access to quality input supplies, technology, finance, and market information. MSEs and smallholder farmers do not operate in a vacuum: they operate within market systems which may be local, regional, or even international.

The chain of activities required to bring a product from conception to consumer is a value chain, and the value of the product increases

at each point in the process. The continuum of activities through which a product passes as it is transformed for the market is: input supplies → production → processing → wholesaling → retailing → exporting. Typical consumer groups of a value chain are rural, low-income urban, high-income urban, and international.

These distinct consumer groups are often differentiated by how much a product has been transformed, or upgraded, as it passes through the various stages of processing and distribution. More value is added to the product along this chain of activities to meet the specific desires and needs of a higher-value market. A product that reaches the rural poor most often has not been processed or had value added, whereas a product which reaches the high-income urban consumer has been transformed and fetches a higher price.

A value chain is defined by the final product reaching the end consumer within a market channel. There are usually several value chains in a subsector. Analyzing the entire subsector reveals the different value chains in it.

This provides the opportunity to scrutinize not only the competitiveness of each value chain within the subsector, but also to identify which value chain provides the best market opportunity for the largest number of MSEs. The value chain which reveals unmet market demand and improved income opportunity for hundreds or even thousands of MSEs is often a good choice to develop.

Value-chain analysis reveals the system of interactions and relation-

### Box 1. Identifying Competitive Value Chains

Value chain analysis helps assess MSE competitiveness, opportunities for MSEs, and the factors that compromise their capacity to participate in higher-value markets. This outline shows the various elements looked at in identifying competitive value chains:

- End-market opportunities
- The enabling environment
  - national
  - regional
  - global
- Inter-firm cooperation
  - vertical
  - horizontal
- Existence of support markets
  - input supplies
  - infrastructure (i.e., transportation, storage)
  - finance
- Access to firm level upgrading
  - technical information
  - technology

ships between the different firms and organizations influencing the operation of the market system in the value chain. The relationships shed light on how the product is traded and between whom. It shows the process of creating value, which in many cases is not just production but the value-added activities that increase incomes. This information is crucial for identifying solutions for improving malfunctioning markets.

MSEs often operate in a value chain where the market channel targets other poor. This may be because their product is of poor quality, or they do not have access to transportation and other market outlets, or they do not have access to technology to add value to their product. A market development strategy requires identification of

the barriers to higher-value markets that MSEs face, commercial solutions to these barriers, providers of these commercial solutions, and interventions which facilitate the development of the market.<sup>2</sup>

## Value Chain Development and the Poor

MSEs operating in the informal sector comprise more than 90 percent of all enterprises in the world and account for 50–60 percent of total employment, and up to 35 percent of total economic activity.<sup>3</sup> Needless to say, MSEs are a force to be reckoned with. One of the main goals of microenterprise development efforts is to link MSEs to higher-value markets so that the benefits of globalization reach this sector.

MSE performance is constrained by the following four factors—limited resources, high transaction costs, high risks, and limited knowledge of the market. MSEs that are run by the very poor have specific constraints related to factors that exacerbate their poverty, such as geographic or socio-cultural isolation and the devastation of war.

### Constraint: Limited Resources

MSEs are characterized by limited resources for labor, skills, and capital. These resource constraints make it difficult for MSEs to meet the standards required for local, regional, or global markets, which excludes them from higher-value markets as suppliers to larger firms

or even as direct suppliers to markets. Adhering to standards and regulations that prescribe product characteristics, packaging requirements, and processing procedures can be cost prohibitive to MSEs as access to financial resource is limited or non-existent.

Value chain development which improves the competitiveness of the MSEs of the very poor must address many constraints, ranging from low literacy levels, which affects transference of technical knowledge; poor health, which can exclude the poor from value-chain development; geographical remoteness, which makes access to input and output markets costly and time consuming; reconstruction of traditional knowledge when knowledge is lost due to displacement of elders; lack of organizational development, especially in post-conflict communities where mistrust predominates; and access only to non-traditional finance. One facilitator cannot address all of these constraints and their complexities in a systematic and sequenced manner in one project. Resources are limited for improving malfunctioning markets where the extremely poor operate as buyers and sellers. Innovative approaches that can tap into a wide range of expertise are essential. Creating consortiums and developing both formal and informal financial sources are two responses to the constraint of limited resources in value chain development for the very poor.

*Response to constraint:*

#### **Create a consortium or alliance**

The myriad constraints that prohibit the poor from participating competitively in value chains requires varied expertise, such as community organizing, social mobilization for women, technical skills training in production processes, reclaiming traditional knowledge, and development and delivery of informal financial products, to name a few of the skills needed. Creating formal partnerships with other facilitators that have different areas of expertise and specific technical skills to share the workload can effectively address the numerous constraints often associated with value-chain development with the poor. The more members within an alliance, the more diverse the skill base will be—as well as the more problematic it can be to meet the different needs and agendas of the stakeholders within the alliance. A successful consortium requires coordination and dedicated resources.<sup>4</sup>

*Response to constraint:*

#### **Find formal and informal sources for financial products**

Enterprises participating in activities along a value chain have different capital requirements—for input suppliers, production, distribution, wholesaling, and retailing. When working with the poor in rural or remote areas, or with women who are not mobile, the risk to a lender is higher because the market is dispersed, reaching

2. For more details on these steps, see <http://www.actionforenterprise.org/>. The manual, *Promotion of Commercially Viable Solutions to Subsector and Business Constraints*, provides details to the steps.

3. Raphael Kaplinsky and Jeff Readman, "Integrating SMEs in Global Value Chains: Toward Partnership for Development," United Nations Industrial Development Organization (UNIDO), Vienna, 2001.

4. See the appendix for a description of the ARC-LINKs project in Sierra Leone, which is focusing on developing markets for farmers. The activities are outlined as well as the challenges and responses to the challenges.

## Box 2. Enlisting a Consortium to Develop Value Chains in Post-war Sierra Leone

The American Rescue Committee (ARC) is a member of the LINKs consortium (Promoting Linkages for Livelihood Security and Economic Development) in Sierra Leone, along with four other international non-governmental organizations (NGOs)—World Vision, CARE, Catholic Relief Services, and Search for Common Ground. The consortium's goal is to broaden the range and increase the productivity of livelihood activities at the community level and to link productive communities more integrally into regional and national market systems.

Catholic Relief Services conducted a subsector analysis on Sierra Leone's six main cash crops, which revealed unmet demand for shelled groundnuts and an underdeveloped value chain in need of general agricultural technical assistance, farmer cooperative development, linked farmers and buyers, and access to capital for the different actors along the chain.

ARC is coordinating the international NGOs in the consortium and existing financial institutions in implementing interventions that address the aforementioned needs. ARC also provides technical assistance for market enterprise development to local consortium members, oversees and manages financial services with its microfinance partner Finance Salone, and supports training in business management that supports the financing needs and constraints of microenterprises and farmers. Catholic Relief Services facilitates the collection of market and pricing information, Common Ground disseminates this information through community radio programming, CARE created the farmer field schools, and World Vision develops the input-supply market. A number of international players—although multifarious at times—allows ARC to spread out the work and tap the skills and resources of international NGOs needed to succeed in this complex market.

the market and monitoring loans is costly, seasonal loans increase transaction costs, the targeted population may be accustomed to subsidies which increases the risk of default, and there is little if any collateral. To build collateral and reduce risks for formal financial institutions, such as microfinance institutions (MFIs) and rural banks, village savings and credit groups can be developed which help prepare communities for formal institutions. This reduces costs for the financial institutions wishing to expand into poor markets if groups are already formed and there is experience with credit discipline.

Transporters, wholesalers, and even retailers, who purchase directly from poor producers in large

quantities, are themselves restricted in their purchasing power by the amount of capital they have on hand. Value-chain development that includes the poor may require facilitation in encouraging formal banks to deliver financial products to these actors higher up the chain. Lines of credit or overdraft protection with banks in urban centers is a cost-effective way to bridge the financial gap between purchasing and selling, which usually occurs over a short period of time. For instance, when transporters go up country to rural areas to collect produce, they pay the producers and upon their return to urban centers they immediately sell to wholesalers and retailers. These actors are often overlooked in value-chain development for the poor because it is assumed they are

not poor. Yet, the lack of capital to purchase products from the poor is another outside constraint which keeps the poor from participating in the higher-value markets in urban centers.<sup>5</sup>

## Constraint: High Transaction Costs—The Cost of Doing Business

Transaction costs include the costs of searching for products and services in markets, bargaining to reach a good deal, and enforcing contracts. Many high transaction costs of working with MSEs stem from issues related to maintaining consistent quality and achieving scale. Specifically, firms working with MSEs face higher transaction costs because of the time dedicated to ensuring that standards are met, negotiating with many individual MSEs, and collecting the product from dispersed or remote collection points. The extremely poor and marginalized MSEs face the burden of carrying the costs caused by their isolation—whether due to geography or socio-cultural constructs. Intermediaries often take advantage of this isolation and pay very low prices for products, which considerably increases the transaction costs for MSEs, and in some cases, results in these MSEs operating at a loss. Mechanisms that take into account the costs incurred due to isolation are necessary if value-chain development will benefit the poor.

5. See S. Ward and M. Morgan, "Featured Columnist: Ask ARC," *Rural Finance for Value Chains Quarterly* 1, no. 2 (May 2006):3, which provides information on how ARC conducted the value-chain analysis with a financial lens.

*Response to constraint:*

### **Transparency can reduce transaction costs for MSEs**

MSEs that are isolated geographically or socio-culturally are at the mercy of the few input suppliers and buyers which service them. One way to make the buying and selling process more transparent is to create memoranda of understanding (MOUs), which spell out the rules regarding pricing, percent of mark ups, fees for intermediaries, and advertising.<sup>6</sup> This can also foster an environment that promotes trust among buyers and sellers. It is not always easy to get buyers and sellers to agree to this type of arrangement. Thus, incorporating the support of a ministry—where possible—to facilitate the process of bringing the buyers and producers to the table for MOU negotiations can be key. The participation of a government agency adds credibility to the process. Training in pricing, standards and contracts is also necessary for MSEs, so that they have the awareness and tools to bargain and negotiate with, which will also reduce their transaction costs.

*Response to constraint:*

### **Increased market opportunities equal decrease in transaction costs**

Working with the poor is demanding and challenging because of the numerous, seemingly insurmountable challenges that block the participation of extremely poor MSEs in higher-value markets. When interventions designed to develop value chains reveal unmet

### **Box 3. The Challenge of Developing Appropriate Financial Products for the Very Poor in Post-conflict Environments**

The American Rescue Committee (ARC) analyzed the financial needs of a value chain for shelled groundnuts for the urban market. Several possible financial products were identified to meet the needs of the value chain's actors: lines of credit, over-draft protection, seed banks begun with modified small "start-up" grants, and the development of village savings and credit groups. Responding to the need for rural and farmer credit in Sierra Leone's post-conflict environment has been difficult, especially persuading credit providers, because the microfinance sector there is underdeveloped. Expansion and new product development in risky markets is hard to sell. In addition to working with microfinance institutions, ARC advocates a farmer cooperative linked to an MFI or bank to help mitigate risk. Initial finance services will be offered by village savings and loan groups and farmer's cooperatives that will grow from the farmer field schools (a LINKs intervention). With this approach, ARC hopes to build a base of organized and fiscally savvy groups at the village level, which, toward the end of the project period, can become an entry-point for interested community banks or microfinance institutions.

market demand, research will often stop at one or two buyers, which puts the development of the value chain at risk of benefiting only the buyers. Where possible, it is critical to create links between the MSEs and numerous buyers to stimulate competition that will benefit poor MSEs so they will be able to negotiate with several buyers and get the best price.

### **Constraint: High Risks for MSEs and Large Firms**

MSEs and larger firms all face business risks. MSE risk stems from power imbalances when large firms determine terms and conditions of purchases, set and enforce standard requirements, and distribute profits through the value chain. Conversely, large firms risk that MSEs will be unable to deliver the required quantity or quality on time, or that they will choose to side-sell—due to a family health emergency or a need to pay school fees, for example—if another buyer

appears willing to pay more cash on the spot.

Lead firms that set up contractual relationships with micro-producers risk that they may pay higher-than-market price at delivery time. Similarly, exporters have been known to reject finished products when the supply exceeds demand and prices are pushed downward, citing issues of quality, when in fact the problem lies with the exporters who do not want to buy what they cannot sell. Both sides are guilty of causing mistrust. Risks can be reduced primarily by forming trust relationships, based on experience between buyers and sellers.

When MSEs are marginalized due to socio-cultural constructs, risks arise when they attempt to break "traditional" relations with intermediaries and interact directly with end buyers. The disruption of traditional but exploitive relations can backfire on the very people that programs and initiatives are trying to assist. Value-chain development with the poor, in some cases, may

6. See the appendix for a description of the CI-Guyana Project, which incorporated MOUs to improve transparency. In cases where illiteracy is common, drawings can be used to depict the points addressed in a MOU.

#### **Box 4. Using Memoranda of Understanding to Improve Transparency along the Value Chain**

In 2004, the Wai Wai Amerindian tribe invited Conservation International-Guyana (through the government of Guyana) to help them establish a community-owned conservation area to conserve the high-biodiversity of their locale while fostering family and community development. Although the Wai Wai produce a number of unique, high-quality products (such as baskets woven from mokru, intricate beadwork, cassava graters, and traditional aprons), they have had a limited presence in Guyana's handicrafts market due to their remoteness: it takes them 15–20 days by boat and on foot to reach Georgetown, the capital of Guyana. The prices paid by retailers to the Wai Wai did not reflect the true value of the products or cover the transportation cost, yet the selling price was marked up 300–1000 percent more than the price paid to the Wai Wai.

##### **Response of Conservation International during Intervention**

Conservation International facilitated MOUs between the Wai Wai and the chief buyers of their handicrafts to spell out pricing, percent of mark ups, fees for intermediaries, and advertising. The goal of the MOU was to inject a higher degree of transparency into the purchasing process, and at the same time foster an environment that promoted trust between buyers and sellers that allowed the Wai Wai to place market value on their services as distributors to the market. Conservation International facilitated the creation of additional business partnerships for Wai Wai crafts so that the community has increased bargaining power and viable alternatives.

##### **Challenges Faced by Conservation International**

It is not always easy to get buyers and sellers to agree to formalize business transactions. In Guyana, the ministry of Amerindian affairs has been useful in bringing the retailers to the table negotiate MOUS. Although still a work in progress, it is a step forward in formalizing interactions among the players in this value chain (and is a real-life capacity-building exercise in negotiations for the Wai Wai).

It is Conservation International's hope that their effort to inject some transparency into the transactions between the Wai Wai and the buyers will show continued benefit as these indigenous communities are faced with other issues, such as protecting intellectual property and traditional methods and practice. Recently some retailers asked for exclusive rights to some products and weaving patterns.

shift power dynamics such that they result in additional barriers to MSEs participating in the value chain and may even exclude the most vulnerable completely. To reduce this risk, interventions need to consider approaches that are sensitive to the change in the power-dynamic shift.<sup>7</sup>

7. See the appendix for the project description of Triple Trust Organization's Red Meat Project in South Africa, which is attempting to link communal Xhosa farmers with abattoirs.

##### *Response to constraint:*

##### **Strengthen the organization of the MSEs to improve their negotiating power**

Strengthening community and household linkages by facilitating such organization should be an integral component of project implementation. This contributes to the sustainability of the intervention. The marginalized group's competitive advantage—whether it be product quality, availability, or the crucial role they fulfill as

producers and suppliers in the value chain—is the point at which to begin developing a negotiation strategy. Bargaining power is an important intangible asset which poor communities can utilize to their advantage in value-chain development. If rural households are well organized, they can have negotiating power in the value chain and capacity to lobby at a political level when needed. The more united and stronger the group, the better equipped they are to deal with value-chain challenges. Organization to some degree is essential for value-chain development with marginalized MSEs.

##### *Response to constraint:*

##### **Reduce the risks of MSE exploitation with training on pricing and standards**

Negotiating and bargaining requires knowledge of pricing, quality, and market standards to enable the poor to make informed choices. This knowledge provides the tools for MSEs that have previously been unaware of pricing to defend themselves when expecting a certain price and to negotiate for a better price. Training in pricing should be included in value-chain development with the poor.

##### *Response to constraint:*

##### **Understand the socio-cultural aspects of the power dynamics in a value chain power before implementing projects**

Actors in a value chain participate because they benefit economically, despite the challenges and risks which may exist as a result of delicate and/or sensitive environments riddled with problems, such as racism, political issues, castes, and even personal conflicts between

the actors of the value chain. When working in a conflict-torn environment, improving competitiveness with a marginalized segment of the population can seem threatening to those in the historical monopoly. Encouraging and training the traditional actors in how to upgrade, whether it is a product upgrade (improving the quality), a function upgrade (moving up the chain to another level), or a value-chain upgrade (servicing another market with another product from a value-added process), is one way to reduce tensions and improve the malfunctioning market system. It is very important that the facilitators not get involved in the political debates. This might be difficult, but it is necessary, because the moment a project is clouded by politics, the stakeholders will read this as being for or against someone or something. This destroys the integrity of the program, and program integrity is very important in post-conflict areas. This, however, does not mean that the project does not equip poor communities with the knowledge of what their rights are.

## Constraint: Limited Knowledge of the Market

Lack of timely and accurate market information, in addition to an incomplete understanding of market trends with end consumers, makes it very difficult for MSEs to participate in higher-value markets. These shortcomings are challenging to overcome when there is insufficient communication and deficient transportation infrastructure. In some value chains, limited

personal knowledge of the end product is the barrier to entrance into the market for MSEs.

Interacting directly with buyers who can provide information on product specifications and current prices is even more difficult when socio-cultural norms affect women's mobility or prohibit participation of ethnic groups in mainstream economic activities, or producers are geographically isolated due to poor infrastructure.

Isolation limits market knowledge which limits market access. Approaches to developing win-win relationships between intermediaries who have access to both producers and buyers are breathing new life into possibilities for value-chain development with the poor.<sup>8</sup>

### Box 5. Example of Risks that Arise When Vertical Inter-firm Power Dynamics Are Shifted

Triple Trust Organization (TTO) in South Africa is working to link communal farmers directly to the abattoirs. Before the project started in 2004, the farmers sold their cattle in rural markets to speculators for low prices, who then in turn resold the cattle to the abattoirs for much higher prices. The farmers realized that by selling directly to the abattoirs they could increase their income, but the speculators saw this as a disruption of their business.

#### Risks that Emerged for the MSEs

1. Speculators began organizing themselves in order to manipulate the prices at auctions set up by TTO, with the result that communal farmers reverted to selling to individual speculators.
2. Speculators bullied some of the communal farmers, saying that if they sold their cattle in auctions the speculators would never buy from them again.
3. Speculators also began bribing traditional leaders to make sure that they were the speculators of choice for the area under the chief to guarantee their supply. Some speculators offered the chief a commission for every animal bought in their area. Chiefs then used their influence to get farmers to sell to that particular speculator.

#### Response by Triple Trust Organization

Instead of crying foul to the traditional leadership, which could have driven the chiefs to sabotage the project, TTO concentrated on the communal farmers. TTO demonstrated the monetary gain for the communal farmers if they sold their cattle through formal markets than through speculators.

TTO intensified its training program on "how to grade and price animals." The training program equipped the farmers with the knowledge of how much their cattle were worth and what price to expect given market trends. This not only encouraged the communal farmers to sell through the more formal markets, but it gave them the power to vigorously negotiate better prices with speculators. Monitoring the project reveals that the average sale price for cattle by communal farmers has increased by at least 10 percent since the intervention began.

8. For further reading, see L. Jones and P. Shaikh, "Middlemen as Agents of Change: MEDA and ECDI in Pakistan," BDS Market Assessment Learning Paper, Practitioner Learning Program, SEEP Network, Washington, DC, June 2005.

### Box 6. Increasing Market Opportunities for Homebound Women Using Intermediaries

In Pakistan the honor of the family is linked to women's sexual behavior. A woman's entry into the public sphere is often interpreted sexually, as looseness or promiscuity, and reflects on the men in her family. The mobility of women is strictly controlled as a result of this socio-cultural norm. MEDA (Mennonite Economic Development Associates) found that homebound women were producing excellent embroidered fabric, but had no access to market information to procure quality inputs and had to rely on male family members to sell their products in typically low-value traditional markets. However, there were opportunities in a high-value market for embroidered products with contemporary designs. MEDA and Entrepreneurship Career Development Institute, its Pakistani partner, fostered a women-to-women sales network, i.e., a group of female traders who sell the embroiderers' products to wholesalers and retailers. Mobile women who had embroidery skills were identified in villages and towns and offered training in design, marketing, and developing relationships with both buyers and producers. A two-tiered model was developed where embroiderers sold to community sales agents, who then sold product to local sales agents, typically women with home-based boutiques. As these community sales agents developed, they started to compete with the local sales agents which helped prevent monopolies. As a result, 7030 rural embroiderers now have access to higher-value markets through 185 female sales agents.

*Response to constraint:*

**Develop intermediaries who can deliver market information as an embedded service to the underserved**

Buyers want access to quality products which are affordable, and when push comes to shove, they are not concerned with who the suppliers are. Most contexts dictate what men, women, and particular ethnic groups are permitted to do as economic activities. The provision of technical assistance in product development is often the missing link to improved market access for MSEs that are poor. This technical assistance can be provided as an embedded service by intermediaries, also known as "middlemen." Focusing on developing intermediaries will result in disseminating market information to many more poor and isolated MSEs. It also opens up more market opportunities for the intermediaries if they offer prod-

uct development as an embedded service during the transaction.<sup>9</sup>

*Response to constraint:*

**Develop intermediaries who interact with the producer and buyer**

Initial market scans for market players in a particular value chain may not reveal intermediaries who are interested in a win-win relationship. Creative search methods are required to be employed. For instance, with homebound women embroiderers, going into communities and identifying the embroiderers and what sort of activities they engaged in unearthed some women who had opportunities to go to town with permission of their husbands or male family members. In some cases, it may mean hiring both the man and woman, so that the woman can be

mobile and speak to other women who are not mobile. For remote areas, it might be important to investigate all transporters that go into the remote region—by boat, truck, or even on foot. The relationship will already be established between the transporter and the producers in communities. If there is willingness to learn about product development and pass it on to the producers, developing these actors as intermediaries could improve market access for the isolated poor MSEs.

## Conclusion

The globalization of markets ties MSEs to the competitiveness of the industries in which they participate. To succeed in markets—whether local, regional, or global—products must move more efficiently through the different transformative phases, from production to reaching the final consumer, while achieving a specified standard of quality desired by the end consumer. The promotion of economic growth and wealth creation to reduce poverty requires identifying competitive value chains within growing industries.

The value-chain approach assesses the constraints and opportunities for enhancing industry competitiveness by looking at end-market opportunities, the enabling environment at the international and national levels, vertical and horizontal inter-firm cooperation, support markets, and firm-level upgrading. MSEs face the chal-

9. See Appendix 1 for a description of the project, Beyond the Veil, which is linking homebound women embroiderers to high-end urban markets through mobile women who are being trained as sales agents.



lenges of limited resources, high transaction costs, high risk, and limited-to-no market knowledge. The MSEs that are women-run, operate in remote areas, are organized by a minority ethnic group or a dominated majority ethnic group, and operate in a post-conflict environment confront other constraints which make it more difficult to improve their competitiveness and benefit from economic growth. But, the challenges posed by their marginalization should not be reason to exclude the poor from the benefits of globalization.

The four projects used to stimulate the VCWG discussion are

all grappling with very complex environments: post-conflict in Sierra Leone, post-apartheid in South Africa, remote isolation in Guyana, and homebound women in Pakistan. The marginalization of the targeted populations in the highlighted projects all point to the need to study the social relations as well as inter-firm dynamics at the value-chain analysis stage. Empowerment is essential for marginalized populations to enter higher-value markets. Empowerment is about people—both women and men—taking control over their lives, setting their own agendas, gaining skills, building self-confidence, solving problems, and developing self-reliance. It is

not only a collective, social, and political process, but an individual one as well—and it is not only a process but an outcome.

SEEP members support the process of empowerment that increases self confidence and develops self-reliance through organizing communities and transferring knowledge on pricing techniques which improves negotiating skills. Value-chain development with the poor requires a socio-economic response if microenterprise development practitioners are truly going to contribute to the alleviation of poverty.



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**Table 1:** Matrix of MSE Constraints

<b>MSE Constraints in Value Chain Development</b>				
	Resource Constraints	Transaction Costs	Risk for MSEs and Large Firms	Lack of Market Orientation
MSEs in General	Lack of resources to meet the quantity and quality requirements of the market and the ability to adapt to changing requirements	Increased costs of searching for products and services in markets, bargaining to reach a good deal, and enforcing contracts	Risk arises from many areas, including lack of control of terms and conditions of purchase, standard requirements, and control of quantity and quality delivered	MSEs often lack market information and an understanding of market trends and conditions
<b>Groups of Vulnerable MSEs</b>				
Women	<ul style="list-style-type: none"> <li>Lack of control of money</li> <li>Lack of skills</li> <li>Extremely low literacy; in some cases, education is prohibited</li> </ul>	<ul style="list-style-type: none"> <li>Limited or no mobility requires paying more for market access</li> <li>Lack of access to skills training increases costs for large firms to assure quality</li> </ul>	Immobility forces women to work in their homes, which increases their isolation and decreases their bargaining power	Isolation reduces contact with the end market and access to market information
Remote MSEs	<ul style="list-style-type: none"> <li>Lack of financial institutions</li> <li>Lack of skills</li> </ul>	<ul style="list-style-type: none"> <li>Poor infrastructure requires days of travel to reach markets or collection points</li> <li>Supplies cannot be guaranteed for large firms</li> </ul>	Remoteness from markets reduces contact with the end market and increases power imbalance with end buyers	<ul style="list-style-type: none"> <li>Isolation reduces contact with the end market and access to market information</li> <li>Communications infrastructure minimal to non-existent</li> </ul>
Minority Ethnic Groups or Dominated Majority Ethnic Groups	<ul style="list-style-type: none"> <li>Prohibition of access to finance in formal institutions</li> <li>Social restrictions on skill level development</li> </ul>	Market access restrictions require more effort in bargaining, which requires knowledge on pricing.	Breaking out of traditional power relations affects social structures, which can result in even lower incomes	Social constraints impede access to contact with end consumers in higher-value markets.
MSEs in Post-conflict Environments	<ul style="list-style-type: none"> <li>Minimal to no assets</li> <li>Lack of skills and literacy due to disruption of schooling</li> </ul>	<ul style="list-style-type: none"> <li>Lost traditional knowledge increases costs for skill development.</li> </ul>	<ul style="list-style-type: none"> <li>Food insecurity forces populations to consume agricultural production, which puts supply for the market at risk.</li> <li>Damaged infrastructure puts guarantees of consistent supply at risk</li> </ul>	Disruption of pre-conflict market channels and destruction of infrastructure impedes access to final consumers and market information on their needs

# Appendix

## Profiled Projects in the VCWG Discussion

### American Refugee Committee (ARC)-Sierra Leone

**Project name:** Promoting Linkages for Livelihood Security and Economic Development (LINKs)

**Location:** Districts of Koinadugu, Kono and Kailahun in eastern Sierra Leone

**Goals:** 1) To increase production and build economies at the community level through micro-enterprise development and enhancing market-led agricultural innovation and 2) to integrate these communities into regional and national markets through increased flow of inputs and outputs from the communities.

**Project activities:** Provide microenterprise development technical assistance to consortium members (CARE, Catholic Relief Services, World Vision, and Search for Common Ground); oversee and/or manage financial services with microfinance partner Finance Salone; and support business management training activities that correspond to the financial needs and constraints of microenterprises and farmers in a selected agricultural production value chain.

**Number of farmers involved:** 26,000 households in agrarian communities; 12,500 farmers

**Project start and end dates:** December 2004–November 2007

**Description:** A subsector analysis was conducted on six main cash crops by Catholic Relief Services, which revealed unmet demand for shelled groundnuts and an underdeveloped value chain in need of general agricultural technical assistance, farmer cooperative development, links between farmers and buyers, and finance products specifically designed for different actors along the chain. Several possible financial products were identified when a value-chain analysis focusing on financial needs was conducted: lines of credit, overdraft protection, seed banks begun with modified small start-up grants, and the development of village savings and credit groups. ARC is coordinating implementation of these interventions with the international NGOs in the consortium and existing financial institutions.

#### Challenges faced by ARC-Sierra Leone during the intervention

1. Explaining the attention on groundnuts and other crops to LINKs implementing partners (4 international NGOs and 9 local NGOs). Partners were concerned that the project was “turning away” from the broad crop focus it originally had.
2. Shifting the mindset of partners from the more traditional subsidized programming interventions—such as giving out groundnut seeds to start seed banks and using incentives to encourage farmers to plant groundnuts in lieu of other crops—to a more “market-led” decision-making process, which is labor intensive for ARC as a technical coordinator.
3. Responding to the need rural and farmer credit in the post-conflict environment has been difficult, especially persuading credit providers, as the microfinance sector is underdeveloped in Sierra Leone. Expansion and new product development in risky markets are hard to sell.

#### Response to Challenges

1. ARC has been working to assure partners that the ideas and interventions for groundnuts will also benefit other commercial crop support systems. ARC had to be very clear that the results of the value-chain analysis of groundnut farming did not mean that LINKs would now “push” this specific crop (as many partners initially understood), but uses as an example a crop that is already in production in the chosen areas and has shown a high level of unmet demand within the country. The interventions are designed to help farmers understand that an unmet demand exists and to introduce or support existing systems that will allow the farmers to take advantage of the unmet demand, should they see groundnuts as a viable commercial crop.
2. ARC has been encouraging its partners to facilitate the development of producer/wholesaler relationships, allowing the support of the value chain to be more market led. Also, ARC has worked with partners to fold the proposed ground-nut interventions in to other LINKs activities, such as the development of farmer field schools and village savings and loans. This helps to avoid more direct subsidies and make the transition from a relief to a development approach.
3. In addition to working with MFIs, ARC is advocating a farmer cooperative linked to a MFI or bank, to help mitigate risk. Initial finance services will be via village savings and loans and farmer’s cooperatives that will grow from the farmer field schools. With this approach, ARC hopes to build a base of organized and fiscally savvy groups at the village level, which, toward the end of the project period, can become an entry point for interested community banks and MFIs.

## Conservation International (CI)-Guyana

**Project name:** Income Generation within the Wai Wai Community-Owned Conservation Area (COCA)

**Location:** Guyana (Region 9, Konashen District, Masakenari Village)

**Goal:** To establish a community-owned conservation area to preserve biodiversity while fostering family and community development among the Wai Wai Amerindians.

**Project activities:** Facilitate development of a co-management plan for the land titled to the Wai Wai Amerindians; preserve and maintain the biodiversity of COCA through the mitigation and management of threats; build capacity in the areas of enterprise development and management, marketing, and quality control; promote value-chain awareness and vertical linkages with intermediaries and urban craft retailers of high-quality products produced by the Wai Wai; assess opportunities for improvements in physical and communications infrastructure.

**Number of producers:** Approximately 50.

**Project start and end dates:** 2004. No end date has been identified.

**Background:** In 2004 the Wai Wai Amerindian tribe invited CI-Guyana (through the government of Guyana) to help them establish a community-owned conservation area to preserve its high-biodiversity while fostering family and community development. The Wai Wai produce a number of unique, high-quality products (baskets woven from mokru, beadwork, cassava graters, traditional aprons, and headpieces), although they have had a limited presence in Guyana's handcraft market due to their remoteness. (It takes approximately 15 days by foot and boat to reach the nearest urban center—a town of 2000—and the capital of Georgetown is another 12–24 hours overland from there.) No retailer will bear the transportation costs of bringing goods from the Wai Wai village: road travel is expensive (and non-existent during the rainy season), and chartered aircraft are often required to get to the community. As a result, community members both produce craft and assume the cost and responsibility of transporting the products to market. The prices paid by retailers to the Wai Wai did not reflect the true value of the products or cover the transportation cost. Research has also shown that retailers subsequently marked up Wai Wai goods to sell in the capital by 300–1000 percent.

### Challenges faced by CI

1. Infrastructure—The community's extreme remoteness makes transportation costs exceptionally high. The community is only accessible via chartered aircraft between September and March due to the heavy rainy season; the trek overland and across rivers is strenuous and can take two weeks. Communication is limited to radio transmission, and limited English language skills make building direct relationship with retailers difficult.
2. Willingness of retailers—It is not always easy to get buyers and sellers to agree to formalize business transactions. In Guyana, the ministry of Amerindian affairs has been useful in bringing the retailers to the table for MOU negotiations. This is still a work in progress, but is a step forward in formalizing interactions among the players in this value chain (as well as a "live" capacity-building exercise in negotiations for the Wai Wai).
3. Exploitation—It is CI's hope that the MOU efforts will inject some transparency into the crafter/retailer transaction, especially since retailers pay crafters very little and then significantly mark up products in the capital. More recently, CI has noted that there is a danger of retailers attempting to gain exclusive rights to Wai Wai products, weaving patterns, and traditional methods (such as natural dye extraction and use), because the community has little familiarity with the concept of intellectual property rights.

**Response of CI during intervention** (Only the enterprise activities are listed below; a separate set of participatory engagements was conducted for natural resource management planning and biodiversity monitoring.)

1. Initiate participatory enterprise assessments to assess feasibility of enterprises other than handcrafts (tourism and agro-forestry) in generating income.
2. Identify and facilitate additional business partnerships for Wai Wai crafts in order to provide viable alternatives to the main purchasers and to increase community bargaining power. Conduct, with the community, a value-chain analysis to identify shortcomings and needs for improving product flows. This action is ongoing.
3. Facilitate, in partnership with the ministry of Amerindian affairs, MOUs between the Wai Wai and the chief buyers of their handicrafts. These MOUs aim to spell out pricing, percent of mark ups, fees for intermediaries, and advertising. The goal of the MOU is to inject a higher degree of transparency into the purchasing process, while at the same time fostering an environment that promotes trust among buyers and sellers and allows the Wai Wai to place reasonable value on their services as distributors to the market. This action is ongoing.
4. Provide capacity-building and teacher training in design and quality control for community-elected craft teachers; organize weekly training sessions for community crafters. Educational programs are underway in pricing, inventory control, marketing, and relationship building.

# Triple Trust Organization (TTO)

**Project name:** Red Meat Project

**Location:** Eastern Cape, South Africa

**Goal:** To create a direct linkage between the communal farmers and the formal marketing systems.

**Project activities:** Training in pricing and animal grading, marketing norms, and market trends; linking farmers with formal marketing channels through auctions; providing market information.

**Number of farmers involved:** 2,000 Xhosa communal farmers

**Project start and end dates:** March 2005–March 2006

**Description:** Communal farmers largely sell their cattle in rural market where the prices are very low and to speculators. The speculators resell the cattle to abattoirs at higher prices. Traditionally the speculators have been a consistent market for the communal farmers although they pay a low price for the cattle. To address this constraint, TTO has helped set up auctions where the communal farmers can sell directly to abattoirs. This reduces transaction cost for the abattoirs as they do not have to go to individual farmers to purchase their supply.

## Challenges faced by TTO during the intervention

1. Speculators began to organize themselves in order to manipulate the prices in the TTO auctions, with the result that communal farmers reverted to selling to individual speculators.
2. Speculators bullied some of the communal farmers, saying that they should not sell in auctions or the speculators would never buy from them again.
3. Speculators also began bribing chiefs to make sure that they were the speculators of choice for the area ruled by the chief to guarantee their supply. Some speculators offered the chiefs a commission for every animal bought in their areas. Chiefs then used their influence to get farmers to sell to that particular speculator.
4. Communal farmers are not being honest about their stock numbers because they feared that the government would introduce quotas on how much livestock each household can have, as it did in the apartheid era.
5. Communal farmers refuse to brand their animals. It is law in South Africa that all livestock must be branded to avoid stock theft. The formal market does not or, at least, should not buy animals that are not branded because they might be stolen. Communal farmers refuse to brand because animals cause many accidents on the roads. If their animals are branded, the owner can then be identified and may be liable for the cost of the accident.
6. Infrastructure in grazing areas is bad, grazing land is not fenced, and the grazing itself is not very good because it is not properly managed. Communal farmers, therefore, allow their animals to wander so that they can graze.
7. Provision of market information is difficult because most communal farmers cannot read. Outside of announcing auction dates and venues, information days and venues, and red meat market prices every week, communal farmers did not see much use of the other kinds of information.

## TTO's responses to the challenges

1. Instead of crying foul to the traditional leadership, which could have driven the chiefs to sabotage the project, TTO concentrated on the communal farmers. This was done by demonstrating the monetary gain to the communal farmers if they sold their cattle through the formal markets than through speculators.
2. TTO intensified their training program on grading and pricing animals. The training program equipped the farmers with the knowledge of how much their cattle were worth and what price to expect, given market trends. This not only encouraged the communal farmers to sell through the more formal markets, but it gave them the power to vigorously negotiate better prices with speculators. Monitoring the project reveals that the average sale price for cattle by communal farmers has increased by at least 10 percent since the intervention began.
3. By being always visible and keeping its word, TTO convinced communal farmers that TTO was on their side and there was no scam.
4. TTO offered discounts on branding when communal farmers saw that they might be losing out on the now -consistent market channel.

## Mennonite Economic Development Associates (MEDA) and Entrepreneurship Career Development Institute (ECDI)

**Project name:** From Behind the Veil: Access to Contemporary Markets for Homebound Women Embroiderers in Pakistan

**Location:** Baluchistan, Punjab and Sindh in Pakistan

**Goal:** To economically empower poor homebound women embroiderers in three conservative areas of rural Pakistan by enabling them to overcome barriers and participate directly in the embroidered garment value chain.

**Project activities:** Recruit and develop women sales agents to provide a package of embedded services to rural embroiderers, which included product development and access to quality input supplies and higher-value markets. Sales agents were linked to buyers and designers. The sales agents also received capacity building in product development and design.

**Number of rural embroiderers making sales:** As of June 2006, 2953 women received recurring orders in high-value markets; 7030 were involved in the project either through sales to traditional markets or on an ad hoc basis.

**Number of operating sales agents:** 185

**Project start and end dates:** September 2004–May 2007

**Description:** The majority of women in rural Pakistan are marginalized by poverty, home confinement, and geographic isolation. The quality of rural women's embroidery is excellent, but these products are generally sold in traditional low-value markets through monopolistic buying channels. Since buyers are usually men and transactions must take place through a male family member, homebound women do not have the knowledge or opportunity to develop products for alternative markets. At the same time, there is a growing middle class of Pakistani women in urban centers who seek quality hand-embroidered garments in contemporary styles and are willing to pay a premium price for them. To facilitate the inclusion of rural women in higher-value markets, this program focuses on developing the embroidered-garment value chain by identifying women who have some mobility and developing them as sales agents. These sales agents are trained in developing backward and forward linkages to benefit the homebound rural embroiderers by providing embedded services, such as design and quality control. By giving them access to affluent consumers, the sales agents can help the rural women get a higher return on their labor. Contemporary designs are introduced to the value chain by promoting the supply and demand needs of commercial design services and design information from formal designers and traditional "tracer designers" to rural embroiderers through the project's sales agents.

### Challenges faced by MEDA during the intervention

1. Traditionally monopolistic intermediaries have taken advantage of women embroiderers' immobility. One challenge was to ensure that the female intermediaries did not use their new position to exploit the immobile women.
2. The female sales agents being trained through this program also learned about market specifications and standards. Maintaining consistent quality control of embroidered goods that met the specifications of buyers was challenging for the program.
3. The provision of design training began with master designers who were active in high-value urban markets. Communication and transactions between these designers and the rural women were ineffective and expensive.
4. Rising political tensions in Pakistan and the region has the potential to impact the project adversely.

### MEDA's response to the challenges

1. Two tiers of sales agents were developed to ensure access to remote villages: community sales agents bought from producers in the village and sold to local sales agents who then sold the embroidered goods in higher-value markets. As the community sales agents grew in number and became more experienced, they started to compete with local sales agents, which has helped prevent monopolies.
2. The transactional relationship between sales agents and buyers has reinforced the importance of quality control. The project has also helped the sales agents establish "buying houses," which serve as a link between the buyers and sales agents, providing quality control and brokering services.
3. An intermediate design level, tracer designers, have been linked to the project and participated in capacity-building activities. Their contemporary designs sell well in the higher-value markets. As they are often located in rural areas, they are a less costly service for the sales agents.
4. Given that the program uses local people as agents and facilitators and involves low-key, day-to-day business activities, the project has worked to ensure that limited attention is drawn to the project. Project staff has also ensured flexibility when conflict interrupts commercial activities.

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## About SEEP

SEEP is an international network of over 70 organizations committed to reducing poverty through microfinance and enterprise development. SEEP members are active in over 140 countries and reach over 25 million microentrepreneurs and their families. SEEP promotes professional standards of practice in microfinance and enterprise development, conducts capacity building activities for its members and other practitioners, creates and disseminates publications for application in the field, and serves as a center for collaboration on a broad range of sector-related issues.

—Dana de Kanter, Executive Director

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