Urban Value Chain Development: Potential and Challenges in 2009

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with contributions from Linda Jones and Alexandra Mehlbradt

The Value Initiative
Advancing urban value chain development to help millions of people work their way out of poverty.

State of the Sector

2009
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Executive Summary

Today, there is an unprecedented global momentum for poverty eradication. Not only the United Nation, but also high profile global leaders—Bill and Melinda Gates, Mohamed Yunus, as well as popular figures like Bono and Angelina Jolie—have become determined to make significant strides in eradicating global poverty. They join community leaders and professional development specialists who have struggled against poverty for decades. They bring new human and financial resources and stimulate new ways of thinking.

One new frontier is urban poverty. While the majority of the world’s poor still live in rural areas, urban poverty is significant and growing fast. This year, for the first time in history, over half of the world’s population live in cities—by the year 2030, towns and cities in developing countries will be home to over 80 percent of the world population. How are these cities preparing for this growth? Will people have the homes, education, jobs, freedom, and opportunities they hope for? Or will they live in the squalor of slums, where one-sixth of the world’s people live today? What are the environmental, political, and security implications of this kind of growth? How can we support sustainable cities? These are the big picture questions facing urban developers. For people concerned with global poverty, urban poverty is the next frontier.

This paper explores how one poverty eradication tool—value chain development—might be applied to help address the challenge of urban poverty and the goal of sustainable cities. It invites practitioners and other experts in both urban development and enterprise development to learn about each others’ disciplines and explore potential synergy. How can cross-sector learning and partnerships strengthen our response to the challenges of our urban future?

Urban development is a diverse community of practice. This paper summarizes some critical topic areas, approaches, and issues, inviting urban development experts to clarify and add their perspectives:

- Representation and governance
- Shelter and housing
- Food security and nutrition
- Environmental sustainability
- Infrastructure (and human services)
- Local economic development (and livelihood security)

Enterprise development experts are invited to learn about urban development and share their insights.
Value chain development is an economic development tool that, when applied to local economic development, can become a powerful poverty eradication tool. Value chain development is focused on helping businesses link with and compete in growing markets. When applied with a poverty eradication goal, value chain development links the poor to more viable economic opportunities and increases their benefits from market participation. Value chain development has developed a good track record for rural poverty alleviation on a moderate scale. Specialists are working to advance value chain development for increased scale and sustainability, for better impact assessment, and for increased outreach to the poor and very poor. To date, “pro-poor” value chain development has been applied more in rural areas and needs to be adapted to urban markets—for example, to link the poor to growth sectors, to retail and service sectors, and to infrastructure and human service sectors. It has also worked well for linking more sophisticated firms to global markets, but there are key challenges for late-entry countries and cities.

Enterprise development specialists are invited to comment on the issues presented here via the Enterprise Development Exchange (http://edexchange.seepnetwork.org) and help inform this developing research agenda. Urban development specialists as well are invited to learn about value chain development and share their insights.

This paper brings together enterprise and urban development specialists to seek synergy and partnership in addressing urban poverty and the goal of sustainable cities. Both groups are invited to consider a number of questions:

• How might value chain development help achieve urban development goals? Could it help organize efficient and sustainable delivery of key services, such as water and sanitation, housing, and energy? Could external market linkages bring wealth to communities to support better living conditions? Could it help market and distribute green energy products?

• What kinds of value-chain development opportunities are presented by a deeper understanding of urban issues? Could linking with organizations that represent poor communities help improve the governance and regulation of targeted industries? Could linkages with comprehensive city planning initiatives help mobilize more resources for, and improve governance of, high potential sectors? Does the provision of housing, infrastructure, and human services represent a high potential market for urban microenterprises?

The responses will be incorporated into a later version of this paper, which will form the foundation for the research agenda for the Value Initiative.
Chapter 1

The Urban Poverty Challenge

Never before in the history of the world has humanity been so mobilized to take on poverty. At the turn of the century, the United Nations set a Millennium Development Goal (MDG) to reduce by half the number of people living in extreme poverty by the year 2015.¹ So far, these efforts have focused on eliminating rural poverty, where the majority of the world’s poor have always lived. Urban poverty, however, is significant, highly concentrated, and growing fast.

Cities have always represented a chance for a better life. The promise of urban opportunity has been the source of considerable growth in the world’s cities throughout modern history. This has never been more the case than today, especially in countries with developing economies. By 2008, for the first time in history, over half of the world’s population—3.3 billion people—will live in cities. By 2030, towns and cities in developing countries will constitute 81 percent of the world’s urban population.²

The explosive growth of cities brings with it the significant task of sustainable development—generating income and employment for growing populations, and effectively managing the social and environmental costs that come with high density. In many ways, cities are growing far faster than they are developing. One billion people, a sixth of the world’s population, already live in slums, and this number continues to rise rapidly.³

The United Nations MDG target number 11 is to improve the lives of 100 million slum dwellers—a modest goal in the face of the global urban challenge, but one that will, nevertheless, be a challenge to meet.⁴

1.1 Characteristics and Global Risks of Urban Poverty

Urban poverty cannot be described simply by the statistic of living on less than US $1–$2 a day. The urban poor face a myriad of hazards and obstacles that prevent them from being able to improve their quality of life. Urban poverty exists in the de-humanizing squalor of slums, dense environments that threaten global health and security.⁵

¹ http://www.un.org/millenniumgoals/
⁴ Ibid.
⁵ Ibid.
As growing numbers of people migrate to cities, and as infrastructure and living space prove to be insufficient, most people settle down in areas that are not zoned for residence or that belong to private owners—creating slums. In such informal settlements, government infrastructure is non-existent or weak. Most of the new entrants are not strong participants in formal political or governing systems, and so do not have a voice in how city funds are spent or how the city is regulated. The illegality of such informal settlements and lack of secure land tenure leave slum residents vulnerable to eviction threats and coercive payments. The dominance of the informal sector economy leads to market inefficiency and instability, poor working conditions, and uncertain financial rewards. Under such circumstances, crime and violence thrive largely unchecked, leading to a proliferation of drugs, prostitution, and sex slavery. Youth are perhaps the greatest victims of this poverty, and their lack of opportunity, education, and overall stability leads to great social unrest. All of these challenges act as structural impediments to the functioning of markets and present significant barriers to the empowerment of individuals.

### 1.2 Urban Resources and Strategies for Poverty Eradication

At the same time, cities offer potential for poverty eradication, liberty, and cultural enrichment. Cities are hubs of economic growth, links to external investment and markets, and dynamic centers for emerging culture and technology. The sheer number of people living in metropolitan areas presents businesses with the world’s densest, most accessible markets. The urban poor have a high demand for consumer products and services, business services, and infrastructure, such as water, sanitation, energy, communications, transport—much of which can be and often already is provided by micro and small enterprises. Cities host a multitude of institutional and human resources that can be channeled toward poverty eradication, cultural renewal, freedom, and justice. The economies of scale available in cities facilitate efficient social service delivery. They also create business opportunities, for example, when firms cluster together to better respond to market demands. In any “slum,” the vibrancy of entrepreneurship, ingenuity, youth culture, religious fervor, freedom, and cultural mixing compete strongly against the challenges of everyday survival.

The question before us is—how can we harness the resources of today’s cities to help the poor work their way out of poverty?

Poor people frequently lack sufficient social support—education, capital, social clout, decent sanitation, health care, and access to infrastructure—to obtain gainful employment or run successful businesses. This leaves them without the resources to obtain the social services and infrastructure they need to enjoy viable livelihoods. Undermining their efforts to gain a social or economic foothold

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7 Ibid.

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**Human Impact of Slum Living**

Children living in urban slums are more likely to die from pneumonia, diarrhea, malaria, measles, or HIV and AIDS, due to poor living conditions. In many cases, poor sanitation and indoor air pollution make slum children and women more vulnerable to respiratory illness and other infectious diseases.


**Nairobi’s Slums Help Tell the Story of Urban Poverty and Ethnic Violence in Sub-Saharan Africa**

One of the largest and poorest slums of Africa is Kibera, lying in the center of Nairobi, Kenya’s capital city. Kibera receives significant international attention because of its size, its location in an important world city, and its proximity to UN Habitat headquarters. In many ways, however, Kibera is representative of the typical density, opportunities, and hazards of African slums.

How did Kibera come about? During the colonial era, Nairobi was racially segregated by law. After independence, formal segregation was replaced with socioeconomic and cultural stratification. Without adequate housing available, rapid urbanization led to the development of slums: an estimated 60% of Nairobi’s population live in informal settlements.

There is no clear policy to facilitate urban development in Kenya. Most slums are located on unplanned sites that are unsuitable for housing—along riverbanks and new industrial areas. Residents are exposed to pollution and floods. Discrimination along ethnic lines exists, with many people living in sub-communities of their own ethnic groups. With the political liberalization that began in the mid 1990s, the slums became highly politicized along ethnic lines.

Following the highly contested results of the December 2007 presidential elections in Kenya, and the swearing in of incumbent Mwai Kibaki (an ethnic Kikuyu), the slums of Nairobi were the first to explode in riots. Members of non-Kikuyu tribes, organized by politically connected factions, reacted with extreme violence against their Kikuyu neighbors. Kikuyu gangs responded in turn with ugly reprisals against other ethnic groups. Although political tensions have died down after a compromise was worked out with international mediation, the displacement of thousands of people and a general feeling of distrust and bitterness has torn apart the fragile social fabric of Nairobi’s slums.**

**Freedoms Instrumental to Development**

**Political Freedoms**
The opportunities that people have to determine who should govern them and on what principles.

**Economic Facilities**
The opportunities to utilize economic resources for the purpose of consumption, production, or exchange.

**Social Opportunities**
The arrangements that a society makes for education, health care, and other basic social services, which influence the individual's substantive freedom to live better.

**Transparency Guarantees**
The openness required for people to deal with one another under guarantees of disclosure and trust.

**Protective Securities**
A social safety net needed to prevent the affected population from being reduced to abject misery and, in some cases, even starvation and death.


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A **value chain** is a market system— the businesses and relationships moving a product from beginning to end, from raw material to finished product, getting services from business to the customer.

**Value chain development** strives to:

- link the poor to higher value markets, increasing employment and income;
- develop vibrant industries and make local economies more competitive in national, regional, or global markets; and
- attract private and social investment to expand local economies.

This paper and the Value Initiative concentrate on “value chain development” as a potentially high-impact local economic development strategy, which can contribute both urban services and income generation needs. On one hand, it can help poor people operating in the informal sector reach growing markets, generate more income from their businesses, and improve working conditions and wages. On the other hand, because urban service needs are also urban markets, value chain development can help engage small-scale businesses in the supply of basic services—sanitation, water, housing, electricity, market and road maintenance, child care, and even health care—to their natural customers, their neighbors. Effective value-chain development requires a supportive enabling environment and depends on progress in achieving the other freedoms—political, social, transparency, and security. Thus, there is much to be gained in linking value chain development with other communities of practice in urban development. Of course, there are also many challenges—all of which will be discussed in this paper and in the online conference.

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In 2007, a billion people lived in slums. If the current trend continues, by 2020 there will be 1.4 billion slum dwellers. The MDG target is to “achieve significant improvement in the lives of at least 100 million slum dwellers by 2020.” Given the estimated increase, this target is imprecise and limited. Current urban development strategies and approaches have had mixed or small-scale results. Urban development experts and communities are calling for more significant solutions that are socially, financially, and ecologically viable while meeting the needs of the rapidly growing urban population. Whether the solutions to urban poverty lie in market-based approaches, strengthening the voice and participation of the community or providing access to savings and credit—or a mix of them all—is an important question for urban development professionals.\(^{11}\)

This chapter describes some key issues in urban development, summarizing current perspectives, strategies, innovations, and challenges in each. These issues—representation and governance, housing, infrastructure and human services, environmental sustainability, food security, and local economic development (addressed in chapter 3)—are closely interlinked. They call for comprehensive solutions based on a nuanced understanding of the underlying causes of poverty in urban areas, informality, and politics of the urban markets. For example, food security in urban areas is not only linked to food production and access but is a function of income security, infrastructure, and existing distribution systems in the market. In this spirit of cross-sector work, this chapter explores synergy: how can value chain development enhance urban development work? How can value chain developers benefit from a better understanding of these urban issues?  

\### 2.1 Governance and Representation

Why urban governance and representation? Political freedom, a core freedom often missing in slum communities, is the ability of residents to determine how they will be governed and served. Far from supporting participation, most public policies attempt to discourage migration by marginalizing slum populations—politically, legally, and in terms of provision of services. One root cause of lack of services in urban slums is lack of representation and rights.\(^{12}\) Effective urban governance can be used as a powerful tool to address urban poverty by allowing for popular participation in decision making, creating connections between civil

\begin{footnotesize}
\begin{enumerate}
\item Kuiper and van der Ree, 2006.
\item Ibid.
\end{enumerate}
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Broad Benefits from Participatory Budgeting in Porto Alegre

In Porto Alegre, Brazil, a bad fiscal situation was transformed to increase the role of civil society, leading to more effective governance and better, more demand-driven services for communities. At the end of 1989, the new mayor of Porto Alegre, Olivio Dutra, found himself faced with a budget that had been almost entirely dedicated to salaries by the previous administration. While Dutra had promised the city’s low-income population improvements in housing and infrastructure, there were no resources available. The mayor informed the public about the fiscal problem the government faced. He then fixed the situation in two ways. To increase resources immediately, he enacted local property tax reform. Then, he let the people decide how to spend the new resources.

Citizens and neighborhood associations organized a new kind of civic participation based on real commitments from the government and concrete resources transparent to all. The government took the role of informer, facilitator, and the executor of decisions, and was accountable for implementation. To this day, decisions on a substantial portion of the municipal budget are made directly by citizens.

Participation of citizens in the budgeting process has grown steadily in Porto Alegre. Government resources have grown more efficiently and transparently as a result, and have been spent on urban development of low-income neighborhoods. Porto Alegre has been one of the most economically prosperous cities in Brazil in recent years, and has a higher-than-average life expectancy.

Porto Alegre stands out from other major Brazilian cities because of its ability to incorporate its poorest members into its economic success. “Poor people, many of them previously accustomed to occasional handouts, showcase projects, and paternalistic procedures, develop a permanent identification with their city, an essential change in their transition from resident to citizen.”

Participatory budgeting, which originated in Porto Alegre, has been replicated in various forms in Brazil and throughout the world.*

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society and government and ultimately fostering the articulation of a common vision for the city.13

### 2.1.1 Strategies and Approaches

The benefits of citizen participation in urban planning have been widely acknowledged and encouraged in national poverty reduction strategies. In response to day-to-day realities, the urban poor themselves have set up formidable groups, associations, and federations to identify the social and economic challenges that they face and find practical solutions to these problems.14 They have linked with UN Habitat to support a global movement focused on security of tenure.

**Role of Community Organizations**

Many federations have changed public policies and programs of local and national governments and made them more pro-poor through advocacy. For example, in Thailand and Cambodia, associations of poor residents have negotiated very large and ambitious government programs to improve the lives of poor people. In India these federations have changed the way toilets and washing facilities for slum dwellers are financed. They also have changed community management of resettlement programs and slum upgrading, which have had significant impact on a national scale.15 In addition to advocacy work, federations also run pilot programs to demonstrate to government the possibilities of alternative approaches. The role of federations is not to replace the government or work outside the government but to make the government more effective. Experts estimate that 20–50 percent of urban poor participate in representative organizations,16 and global federations of representative groups are emerging.17

**Global Campaign for Secure Tenure**

In partnership with slum dweller associations globally, UN Habitat is facilitating a global campaign for secure tenure. The key principles of the campaign include housing rights for all:

- Security of tenure, as essential for city stability, human dignity and urban development
- Gender equity, to ensure active inclusion of women in development
- Partnership, as a means to ensure sustainable development through the participation of all protagonists
- Negotiated resettlements instead of forced evictions

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* Garau, Sclar, and Carolini, 2005.
14 Ibid.
16 Ibid.
• Transparent and open land markets to fight corruption and reduce speculation
• Land availability to meet the needs of urban poor.

At the national level, the campaign is designed by all stakeholders with participation from representative organizations. Participating countries commit themselves to change and to this process by adopting the Habitat Agenda.18

2.1.2 Challenges

Current debates and challenges in supporting improved governance and representation include:

• counter-balancing gangs and mafias, politically-charged groups (i.e., affiliated with a single political party and representing the party’s interests more than the people’s interests), and ethically exclusive forms of organizations with more truly representational groups;
• ensuring women’s representation and voice;
• as the movement become more professional and more supported by global funders, ensuring its ability to continue to represent the interests of poor residents, rather than the institutional interests of the organizations; and
• linking this movement with democratization efforts in each country and globally.

2.2 Shelter and Housing

A key challenge of urban shelter and housing is how to create affordable housing and shelter solutions for a rapidly growing urban population. Experts and practitioners seek strategies that are practical in the urban context, serve the requirements of low income communities, and are financially and ecologically sustainable.

Generating sufficient shelter for the urban poor is not, fundamentally, only a question of architecture and affordable technology, although these come into play. Rather, experts argue that effective policies will require a better understanding of the social dynamics of informal sector settlements, and the politics of shelter provision.19

2.2.1 Land Tenure, Illegality, and Informality in Urban Settlements

An underlying cause for most housing-related problems in urban areas has to do with the informality of urban settlements that often do not have legal rights and

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Centro Migrante

In the Philippines, as many as 1 million Filipinos a year spend months away from their home provinces in Manila’s port areas looking for jobs as seafarers. The Philippines is the largest source of seafaring labor in the world, supplying over 25% of the world market. While looking for job contracts, most Filipino seafarers live in shanties in depressed and undignified living conditions. CentroMigrante provides them with housing that is clean, safe, and affordable, attached to work-for-stay systems and support services, such as job search assistance and skills training. It uses durable, cost-efficient, and scalable architecture, paired with a self-help program that mobilizes the migrants themselves in building and maintaining their own housing. A prototype of this business concept has already been built by Pier One Seafarer’s Dorm, a 1,500-bed concern in Manila that has been operating profitably since 2003. CentroMigrante’s product is innovative and provides an integrated solution for housing, skills training, and carrier assistance. These are all incorporated in CentroMigrante, with no other comparable product. The self-build concept is an example of modular design adopted for the family housing scheme. CentroMigrante’s structures are designed for deconstruction, allowing rentable space to be expanded while reusing the materials and the same land area. CentroMigrante is financially self-sustaining and its ability to generate a profitable return on the initial investment allows it to self-finance its operations and growth.

CentroMigrante, Inc., won the prestigious MIT Development Track entrepreneurship award in 2006.

Adequate shelter means:

- durable housing structures,
- sufficient living area,
- access to improved water,
- access to sanitation, and
- secure tenure.


As cities grow, slum lands—once considered city outskirts—often become prime property that attracts developers, triggering evictions and slum demolitions. A global survey found that 6.7 million people have been evicted, with many of the evictions carried out without any legal notice. Lack of legal tenure also discourages governments from providing services, which further exacerbates the problems faced by those with low incomes. As a result, such informal settlements are often devoid of public services and families access water by illegally tapping pipelines, digging wells, or purchasing from informal vendors. Sanitation services are also limited with rare provision for sewerage. Often, corrupt officials and their representatives or organized criminal gangs find illegal ways of providing services and develop political control over populations and geographic areas. Thus, the illegality of such informal settlements creates vulnerability to eviction threats and gives rise to a culture of coercive payments and crime.

2.2.2 Current Approaches to Housing and Shelter

Approaches to housing and shelter have evolved from top-down government-driven approaches to participatory public-private partnerships. When governments initially became involved in housing and shelter for the poor, one strategy was for the government to provide housing. However, “public housing” came to be perceived as an inadequate strategy to deal with the proliferation of slums because of the paucity of public resources, rising costs of public housing, and the co-option of public housing by the working or middle class. Now, governments partner with private sector banks, mortgage financiers, microfinance institutions, and community organizations. Strategies include improvement in representation and land tenure, stimulation of financing for large-scale, affordable housing, incremental improvement of informal housing, and integrated solutions. In countries that have successfully reduced slum growth and slum populations—for example, Brazil, Thailand, Egypt, Mexico, and Tunisia—governments have made a long-term commitment to slum upgrading and prevention and have implemented in-
clusive policies, land reforms, and regularization programs.26 To address the fundamental problem of insecure tenure, UN Habitat facilitates a “Global Campaign for Secure Tenure.” The campaign advocates involving the poor in finding solutions to their housing problems.27 Some specific strategies for housing and shelter improvement follow.

**Demand Stimulation for Formal Sector Housing**

In contrast to supply-driven strategies of the past, one current trend is to offer housing financing to stimulate more effective demand for formal sector housing.

- **Downmarket mortgage finance.** Government offer incentives and appropriate regulations to banks to expand the market for commercial housing finance to lower income groups.28 This strategy works well for the middle class and sometimes for the working class, when there is an adequate supply of regulated land to purchase, but is not an option for the very poor and those without tenure.

- **Capital grants to access mortgage finance.** For even lower-income populations, governments or community groups offer qualified households grants for a down payment, prior to linking them to mortgage financing.29 This strategy has been applied with some success in Chile, Costa Rica, Columbia, Ecuador, and Guatemala. Private development companies have responded to this new demand by creating low-cost housing for sale. However, the resulting housing has often placed new owners in remote locations, with low-quality construction and high costs for related infrastructure—water, sewage, electricity.30

- **Community-based housing construction and finance.** Habitat for Humanity, a global NGO, organizes communities to construct and finance new homes. Community organizers help communities identify people in need of new or improved housing, train community members in appropriate construction techniques, and organize a rotating cooperative in which neighbors (re)build each others’ houses. Owners then pay for houses through a loan, which forms a rotating loan fund for others in the community.31 This strategy is less prone to corruption and is more sustainable than government-built housing, but takes longer to implement and is only relevant when tenure is secure.

**Improving Informal Sector Housing**

A second set of strategies helps people to incrementally upgrade their informal sector housing, often starting with basic unit-level improvements and leading eventually to infrastructure linkages. Collective actions of residents also help in achieving tenure security and negotiating connections to bulk services and infrastructure.32 Improvements use appropriate technology, but do not always comply with building regulations because of the high costs of compliance. This strategy is relevant in areas where ownership may not be granted, but tenure is fairly secure. It allows people to spread housing costs over several years and eliminates interest payments.33

**Global Support for Community-Led Initiatives**

All over the globe, community-based organizations (CBOs) devise innovative housing and shelter strategies, but struggle to get financing, official sanction, and technical support. The Cities Alliance established the Community-Led Infrastructure Finance Facility (CLIFF) to address this challenge. CLIFF provides venture capital, loans, and technical guidance for community-led slum upgrading schemes. Once the initiatives are off the ground, they are often able attract
CLIFF: Community-Led Infrastructure Finance Facility in India

Homeless International manages a global facility, which is currently operational with the Indian Alliance and a similar alliance in Kenya. The Indian Alliance consists of Mumbai-based NGO (SPARC) and two community-based organizations (the National Slum Dwellers Federation [NSDF] and Mahila Milan). The Indian Alliance began supporting community-driven construction of housing and related infrastructure in the 1980s, as a way of demonstrating community-led solutions to some of the problems associated with slums. Since then, the size and complexity of their construction portfolio has grown significantly, and SPARC has even established its own construction and finance arm—a not-for-profit company called Nirman—to take on the challenge. Loan financing is recycled as projects are completed and revenues received, thereby establishing Nirman (fund) as a sustainable, long-term financing facility in India. For example, CLIFF loan financing was provided to a housing project in Dharavi, Mumbai, while negotiations with banks and government authorities took place. Later, the National Housing Bank provided loan financing which took over the majority of the CLIFF loan finance that had been approved for the project. This freed up CLIFF loan funds to help kick-start other new schemes.


Communities of Practice: Housing

UN Habitat (http://www.unhabitat.org/)
IIED (http://www.iied.org/HS/index.html)
Habitat for Humanity International (http://www.habitat.org/)

Key Resources

Integrated Approach

Some organizations take an integrated approach, working on housing and shelter along with other aspects of people’s lives that support improved housing and shelter. For example, they help people generate more income to pay for improved housing and save in order to upgrade housing. They may simultaneously help communities advocate for more secure tenure, access to credit, and increased participation in governance. Although complicated to implement, an integrated approach allows tackling a wide range of problems with a wider outreach, in partnership with local policy makers.

Current Challenges

• Scaling up effective approaches, particularly those that facilitate secure land tenure, offering integrated solutions, and/or introducing appropriate technology for affordable housing
• Integrating demand-side interventions while stimulating appropriate quality housing on the supply side
• Reaching downmarket, since most strategies do not reach the very poor

2.3 Urban Food Security

Food security is an issue in the urban developing world. How will our future cities be able to support the food and nutrition requirements of the growing urban population, especially the poor?

A number of factors affect the future shape of food security and nutrition in urban areas. Urban dwellers typically obtain their food from three sources: the market (majority), their own production, and food relief. For most people, food security depends on their income and on the cost of food. The per-unit cost of food for the urban poor escalates because of inefficient food distribution systems and because the poor necessarily purchase in small quantities. Food availability, inflation, macroeconomic policies, and food subsidies can push or pull down food prices. Many urban dwellers grow their own food in urban gardens or on their farms. Others earn a living through agricultural production (urban and rural) and food processing and distribution. Thus, policies to improve urban

other financing. Repayments replenish the CLIFF funds. Other community investment funds have also strengthened collective organizations that engage political systems and create social capital and access to financing for investment in land and services.
food security seek to increase supply, improve market efficiencies, stabilize low prices, and improve income security.\(^{40}\)

### 2.3.1 Current Strategies and Approaches

Current approaches to improving food security involve increasing food production in urban and peri-urban areas, improving distribution systems, and providing access to savings and credit for microenterprises involved in food distributions as well as consumer households.

#### Urban and Peri-urban Agriculture

Urban and peri-urban agriculture (UPA) can contribute to food security and nutrition by increasing the quantity of fresh food available to the urban poor. With its low barrier to entry and residual skills available in migrant populations, it has the potential to generate opportunities for an alternative or supplemental source of food and income. Urban farming can complement rural agriculture in terms of time and place by supplying a stream of crops year-round due to higher level of specialization and shorter distance from markets.\(^{41}\) UPA provides an important or supplemental source of income and food for poor people. Proponents point out that UPA absorbs urban waste.

This last point raises also some of the risks and disadvantages of UPA. It may cause environmental pollution and/or pose serious health risks. Even if, and when, UPA is formalized, it will tend to use chemical fertilizers, which pose health risks to nearby residents and to the water table. UPA competes for land, water, and energy that is already scarce and expensive in urban areas. Also, it may have very little impact in terms of income injection in the economy as it is conducted opportunistically, due to insecure land tenure.\(^{42}\) Thus, some of the challenges, according to the UN’s Food and Agricultural Organization (FAO), include efficient integration of UPA with rural agriculture and designing efficient land and water practices to account for city farming and keep the environment in balance.\(^{43}\)

#### Increasing the Efficiency of Distribution Systems

On one hand, urban farmers have the advantage of being close to a market where there is high demand for food and a plethora of vendors to take food to market, including the farmers themselves. On the other hand, for farmers seeking higher-value markets and planners attempting to increase efficient production, efficient production and distribution is hindered by fragmentation into small, marginal locations; the small size of gardens; small volumes of transactions; and

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\(^{40}\) Ibid.


\(^{42}\) Ibid.

**Urban and Peri-urban Agriculture**

**Question:** Is it possible for a small subsistence farmer to become an urban agricultural entrepreneur through process upgrading? Is it possible for these entrepreneurs to also upgrade functionally by becoming involved in labeling and packaging in the food commodity value chain and move from a subsistence to enterprise mode?

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<thead>
<tr>
<th>What is urban agriculture?</th>
<th>What are the key opportunities offered by urban and peri-urban agriculture for income generation and employment?</th>
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</thead>
</table>
| Urban and peri-urban agriculture—referred to jointly as UPA—is perceived as agriculture practice within and around a city, competing for resources (land, water, energy, and labor) that could also serve other purposes, to satisfy the requirements of the urban population. Important sectors of UPA include horticulture, livestock, fodder and milk production, aquaculture, and forestry. | • Less need for packaging, storage, and transportation of food, as farms are very close to the markets  
• Non-market access to food for poor consumers  
• Availability of fresh food near consumer locations  
• Part-time work made available for women who can combine it with childcare and other household responsibilities as well as salaried employees  
• Proximity to services, including waste treatment facilities in the cities  
• Waste recycling and re-use possibilities  
• Enhanced appeal of using the agricultural fields close to cities as recreation sites or for agro-tourism  
• Fresh food needs of the urban lower middle class who do not own refrigerators accommodated  
• Possibility of using hi-tech agricultural techniques (hydroponics, etc.) to produce fresh vegetables as an community enterprise with linkages built with retail markets |

<table>
<thead>
<tr>
<th>Who is really involved in peri-urban farming?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Subsistence, home intra-urban farmers:</strong> Farmers mostly grow for subsistence and have very little marketable surplus.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Family type commercial farmers:</strong> These farmers have a background in agriculture and have often failed in studies or to procure better job opportunities. Their enterprise may or may not generate enough income for savings, as the access to land itself is insecure.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Urban agricultural entrepreneurs:</strong> These are mostly salaried employees, civil servants, business people or expatriates who invest in mechanization by use of sophisticated technology and control the marketing of the produce by direct delivery to stores and exporters.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Urban and peri-urban agricultural entrepreneurs:</strong> This category is similar to rural farmers except that city influence is a motivator to produce more marketable output. This may be an additional source of income and involves higher levels of intensification and specialization.</td>
<td></td>
</tr>
</tbody>
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1. Local economic development, Paule Moustier
6. Local economic development, Paule Moustier

farmers’ lack of market and technological information or skills. Some initiatives focus on helping urban farmers link better with urban consumers.

**Rural-Urban Food Distribution**

The main source of food will always be rural, so improving rural-urban food distribution is a major focus. This is often difficult because of existing policies and lack of sophisticated market and marketing infrastructure.\(^{44}\) One key challenge in the food distribution system is the power and informality of “middlemen,” who often set prices for farmers and urban food vendors. At the same time, these middlemen are usually informal traders, rather than professional food specialists, and are often secretive and protective of their trading partners and trading area. It is challenging to work with this population—often perceived by development organizations as exploitative—to improve food distribution. A second issue, which is both a challenge and an opportunity, is the growth of modern grocery chains in urban markets in developing countries, which demand more formal market infrastructure. More formal market institutions play a catalytic role in greater market integration by addressing information asymmetry and transaction costs, as well as non-market barriers.\(^{45}\)

Intervention along the distribution system can present economic opportunities for the poor, not only as consumers but as distributors, if microenterprises are considered in plans to upgrade food collection, storage, and distribution. For example, Triple Trust Organization in South Africa, with a SEEP Practitioner Learning Program grant, developed an initiative to help microenterprise grocers to compete better in their own neighborhoods, as large-scale grocery chains began to serve the townships. And, Procter and Gamble is currently developing strategies to better link with just such “high-frequency” neighborhood shops.\(^{46}\)

### 2.3.2 Modernizing Food Transportation and Storage

Urban leaders are divided about promoting modern transportation and storage technology, such as refrigerated transportation and storage and information systems that track inventories. On one hand, these technologies improve efficiency and food safety; on the other hand, these technologies are inaccessible to the multitude of small-scale traders and sellers who earn their living through food distribution. In the market, the supermarket chains are moving forward, leaving small-scale distributors behind. One key challenge, then—if it is possible—is how to support small-scale distributors that traditionally serve the poor.\(^{47}\)

### 2.3.3 Microfinance

Creating access to savings and credit can support food security by evening out expenditures, even when income is uneven; by helping families buy larger quantities of food at lower prices; and by increasing income earnings through microenterprise investment. Microloans also increase efficiency of food distribution by helping food sellers buy in bulk

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\(^{44}\) Moustier and Danso, 2006.


\(^{46}\) Byron, 2007.

\(^{47}\) FAO (Food and Agriculture Organization), Urban Food Market Infrastructure and Services: Food for the Cities (Rome: FAO, 2000).
and offer a wider range of food products. In some countries, such as Ghana, women traders have traditionally engaged in both savings and credit and market development by purchasing in bulk or negotiating good purchasing prices, organizing market facilities, and setting a basic range for consumer prices. Lessons from such experience, and form the cooperative movement, are informing efforts to organize women market traders in other locations.

### 2.3.4 Challenges

- What is the role of UPA in our future cities? Is it to be confined to public parks, private flower gardens, and roof-top greenhouses on top of skyscrapers? Or is there a role in UPA for food and income security in the long term? How can UPA contribute to environmental sustainability and public health?
- What is the appropriate role for small-scale enterprises in the modernization of the food distribution system? What is their fate, as mega-grocery stores penetrate urban markets?
- In the face of the global rise in food prices and rapidly rising demand due to urbanization, how can rural farmers in developing countries respond with increased production that also generates economic growth, in an environmentally sustainable way?

### 2.3 Urban Poverty and Environmental Sustainability

An important challenge for urban planners is to keep up the momentum of growth that many developing countries have now achieved, while providing better living conditions for the poor in an environmentally sustainable manner. Cities in developing countries face a multitude of environmental problems, commonly referred as “brown bag” issues. These include health hazards from poor sanitation and solid waste management, water pollution from untreated municipal and industrial wastewater, air pollution, contamination of soil and land from improper disposal of solid and hazardous waste, deforestation, appropriation of green spaces for construction of roads and buildings, urban slum concentrations along polluted water bodies, urban sprawl, etc.\(^{48}\)

The environment has become a subject of great concern among politicians and scientists alike across the world. On Dec 11, 1997, the heads of member states of the United Nations adopted the historic Kyoto Protocol aimed at addressing global warming and climate change. According to this protocol, the industrialized countries are expected to curtail greenhouse gas emissions to a certain level by 2012. As of November 2007, 175 countries had ratified the protocol. Last year the Nobel Committee awarded former Vice-President of the United States Al Gore and the UN’s Inter-governmental Panel for Climate Change the Nobel Peace Prize for their relentless efforts in campaigning against climate change.

### 2.3.1 Current Approaches

There is a global movement to support sustainable cities that achieve environmental, economic, and social balance. This vision supports comprehensive and integrated planning. Thus, as water and sanitation solutions are sought, urban planners should look for ways to enhance environmental preservation and income generation. As cities and communities

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pursue industrial development and income generation strategies, pollution and the health and safety of workers should be considered.

**Comprehensive City Planning: Seeking Large-Scale Solutions**

Comprehensive land-use planning and environmental policies carried out at city-level can address overall land degradation, improve public health, and facilitate creation of necessary infrastructure and human services. In this type of planning, as more attention is paid to the process as to the outcome, the active participation of business, community, and environmental groups helps balance its three key goals. Global groups, including UN Habitat, are sharing experience both in the planning process and in the technical details of the plans and their implementation. It is at this level that the challenges of large-scale pollution from transportation and industry can be addressed as well as the goals of reducing greenhouse gasses, urban sprawl, and other significant environmental issues. It is in this arena that cities can make trade-offs between economic and environmental goals and look for win-win strategies.

**Value Chain Approach**

Some organizations are developing urban services value chains in ways that generate business opportunities and improve the environment. They think of urban services as an industry and then strengthen the industry to meet multiple goals. Potential "industries" to target include solid waste (garbage) management, provision of safe drinking water, sanitation services, etc.

**Social Enterprise Approach to the “Triple Bottom Line”**

Providing urban services in slums has also captured the attention of social entrepreneurs who are establishing businesses to provide urban services, generate jobs and income, and improve environmental conditions. Some social enterprises are community run, others are independent NGOs, and others are businesses run by socially minded entrepreneurs. They operate in the water, sanitation, solid waste, urban park and recreation, cultural tourism, energy, and other markets.

### 2.3.2 Microfinance and Green Solutions: The Case for Green Energy

Microfinance is yet another tool for “fueling” green urban development. Introducing clean energy solutions by tapping natural resources—such as water, wind, and solar power—are becoming increasingly popular in urban areas. However, the upfront cost of such technology is unaffordable for most slum residents. Energy providers and microfinance institutions have partnered to bridge this gap by providing loans to pay for initial expenses of appropriate low-cost energy equipment. The energy solutions are sold by businesses and used by busi-

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Sulabh International’s Profitable Sanitation Initiative

Sulabh International implemented a financially sustainable sanitation initiative with social equity and employment components. In India nearly 85% population—i.e., over 750 million people—either defecate in the open or use unhygienic bucket privies or unsanitary community toilets, resulting in health hazards and a foul environment. The bucket privies are cleaned and human waste handled manually by a particular class of people called scavengers, an ostracized section of Indian society lacking human rights and dignity. In response, Sulabh International constructed over 1 million toilets and operates over 5,000 “pay and use” community toilets, serving more than 11 million people daily and liberating 60,000 scavengers. So far, 240 towns have been made scavenging-free. Over 4,000 scavengers have been trained and rehabilitated in various alternative trades. Some 81 community toilets linked to biogas plants have also been installed. Integration of social, economic, environmental and cultural elements of sustainability were achieved by developing appropriate, affordable, easily available, and replicable technology supported by appropriate social marketing and delivery systems based on socio-cultural conditions. The local authorities recover the loans given to the beneficiaries. Sulabh International does not take any grants or subsidies from anybody; it charges cities or community organizations 20% of the implementation charges of the cost of works initiated by the organization to meet its establishment cost. Operation and maintenance costs of community toilets are met from the user-charges. The toilets are cross-subsidized, since all of them are not self-supporting. The technology adopted is such that it does not need any support from other countries.


2.3.3 Challenges

In practice, tackling the urban environment challenge is extremely complex due to its multi-sector nature, compounded by lack of awareness or commitment among planners and citizens and poor institutional capacities to plan and implement. Challenges include:

- the politics of comprehensive planning, and
- scaling up successful community-level strategies.

2.4 Urban Infrastructure and Human Services

Another key challenge for urban developers is how to supply infrastructure and human services to the poor that are affordable and at the same time create livelihood opportunities for the poor. Infrastructure and human services comprise a broad category that includes physical infrastructure, such as roads and water and sewage pipes; business and household services, such as electricity, public transportation, and water or sanitation services; and social services, such as health, education, and workforce training. There are significant overlaps in this community of practice with housing and shelter, environmental sustainability, and local economic development. Infrastructure and human services enhance economic activity and contribute to growth by increasing labor and industrial and agricultural productivity and lowering costs of production and transaction. They also contribute to poverty eradication by contributing to improvement in living conditions, health, education, and social cohesion.

The large and growing demand for infrastructure and human services is not being met:

- 1 billion people lack access to roads.
- 1.2 billion people do not have safe drinking water.
- 2.3 billion people have no reliable sources of energy.

- 2.4 billion people lack sanitation facilities.
- 4 billion people are without modern communication services.

In the absence of accessible, affordable infrastructure, poor people pay heavily in time, money, and health. Recent estimates put annual investment needs for infrastructure (including rehabilitation and maintenance) at 5.5 percent of

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51 d’Cruz and Satterthwaite, 2006.
53 Ibid.
Bottled Water Enterprises in Shanghai Serving Low-to-Middle Income Families

Around 700,000 m3 of water are bottled or barreled in Shanghai every year. Typically, bottled water comes in containers less than 10 liters in capacity and barreled water in containers 10–20 liters in capacity. Bottled and barreled water is mainly consumed by offices and about 40% of households in Shanghai. There were approximately 100 bottled water suppliers and 300 barreled water suppliers in Shanghai in 2001. Large-scale producers accounted for almost all the bottled water production, while small-scale producers accounted for 70–80% of the barreled water production. Quality control by small producers is poorer than that of large producers, but some suggest that stricter government supervision and control may expel some bottlers and barrelers from the market.*

* Hervé Conan, “Piped Water Networks: Helping Local Entrepreneurs to Invest” (Mandaluyong City, the Philippines: Asian Development Bank, 2004).

Infrastructure and Social Services: GTZ in Zambia

Violet Moomba, a 56-year-old widow and mother of seven children has been operating her Water Kiosk No. 7 for four years. She lives in the Freedom Compound of Monze, a medium-sized city 200 kilometers southwest of the Zambian capital, Lusaka. “Sure, I’m proud that I can sell clean water here. People really need it,” she says, leaning over her counter. She adds almost with reverence, “real drinking water!” “People used to have to go a long way,” the unflappable grandmother remembers. “They paid up to 10,000 kwacha a month” (ca. EUR 1.80). Today, the inhabitants of the Freedom Compound have it better. A family pays only about 35 eurocents for the drinking water that Violet offers at a central location. *


2.4.1 Current Approaches

As with housing and shelter, public-private partnerships are the current focus for providing sustainable infrastructure and human services. The main players and their typical roles are described below.

Community-Based Organizations

As described above, community-based organizations (CBOs) and representative federations are playing a pivotal role in serving slum communities. They represent slum dwellers’ interests at the city-planning level, and demonstrate effective strategies for serving the poor. Often, community-managed savings and credit are the foundation of these federations. These services provide collective financing, help individuals save and pay for services, and help mobilize the community around a crucial, immediate need. Some challenges include the complexities of implementing programs with limited staff capacity, management challenges inherent in representative governance, and the political co-option of representative organizations. Despite this, in Namibia, Zimbabwe, South Africa, and the Philippines, representative federations have changed the way some city governments work.

Private Sector, Formal Sector

Governments and large-scale businesses often enter partnerships to provide infrastructure and human services through service contracts for short periods. (For example, for water, they may set up metering or billing for pipe repairs, etc.). They are also engaged in joint ventures with government agencies, so that a company operates as a “parastatal.” Businesses can also purchase “concessions” to supply services, for example, cell phone services. There are BOT (build, operate, and transfer) contracts under which a private business constructs a plant, operates it for a contracted number of years, and then transfers it to the public sector. Despite the trend toward privatization, the percentage of the world’s population served by formal private sector is low. For example, only 5 percent of the

54 IMF and World Bank, 2005.
55 Ibid.
56 Devas cited in “Coordination of Urban Infrastructure and Public Service Delivery for the Urban Poor in Asia,” E. Galvin-Brennan (New Haven, CT: Yale University, School of Forestry and Environmental Studies, 2004); OECD, 2007.
57 d’Cruz and Satterthwaite, 2006.
59 d’Cruz and Satterthwaite, 2006.
Affordability of Toilet Facilities in India

The Delhi slums are served primarily by mobile trailer-mounted latrines, maintained by the Slum Wing of the Delhi Municipal Corporation. Large numbers of the populations in many Indian cities defecate in the open, either because there is no provision for sanitation, because the only options are pay toilets which they cannot afford, or because public toilets are so dirty that open defecation is preferred. Many public toilets in India charge 1 rupee (less than US 3 cents) per use, which means a monthly expenditure of around 150 rupees (US$ 4) for a family of five, if each family member uses the toilet only once a day (United Nations Human Settlements Programme, 2003). This represents a significant proportion of the income of any low-income household. Pay-per-use communal latrines operate successfully for some populations, in some places, although they can present maintenance problems unless responsibilities are clearly defined.*

* E. Galvin-Brennan, ed., “Coordination of Urban Infrastructure and Public Service Delivery for the Urban Poor in Asia” (New Haven, CT: Yale University, School of Forestry and Environmental Studies, 2004).

Communities of Practice: Infrastructure

UN Habitat (http://www.unhabitat.org/)
IIED (http://www.iied.org/hs/index.html)

Key Resources


world’s population is served by the formal private sector (although a large scale of the market is served by small scale providers). Sometimes, the private sector provides services independently—and the only appropriate role for government is regulation. Despite increase efficiencies of large-scale private sector provision, it turns out the private sector faces the same challenges that the government faces: political, financial, and physical pressure to serve elite and middle-class communities, rather than the poor.

Microenterprise Providers

Small-scale providers are critical in the supply of infrastructure and human services in slums. For example, in many slums, the most crucial private water suppliers are not the municipal authority or large corporations. The key suppliers are the small enterprises that sell water. These enterprises are typically informal, independent, and small and receive little subsidy or support. For example, with water, independent providers range from individual pushcarts, truckers who carry water from house to house, and small bottle water manufacturers. Some local operators purchase water from the water utility and sell at a margin, while others tap public sources at very low or illegal rates and sell at very high margins. In Kampala and other East African cities, some people dig wells and use manual pumps. Value chain development is a useful strategy for promoting improved microenterprise provision because it can help identify and unblock typical constraints, such as regulations, lack of finance, appropriate technology and training, branding and marketing quality control, etc.

Social Enterprise

As mentioned above, social enterprises are entering the market of infrastructure and human services targeted to the poor. For example, the Grameen phone company in Bangladesh has been successful in helping millions of poor people get cell phone services through Grameen Bank loans to purchase phones for their own use or as phone businesses (where owners charge others for individual calls). The Grameen phone company also sells cell phone services to middle- and upper-class consumers. So far, the number and scale of such businesses is small, but it is attracting significant global attention and likely to grow.

What Practitioners Can Do to Strengthen Private Markets

Given the evidence of the potential that private healthcare, water sanitation, and education have to serve the poor, practitioners are experimenting with a range of strategies, such as:62

- promoting a range of different public private partnerships, appropriate to different markets and services;

• giving vouchers to poor consumers to use at private dealers of their choice;
• developing and testing appropriate and affordable health products because the poor face different health issues;
• understanding and stimulating customer demand through consumer research, especially for services where initial demand is likely to be weak; and
• supporting private providers by linking them to technical and management training and credit.

2.4.2 Challenges

• How can we supply infrastructure facilities to the poor that are affordable at the same time creates livelihood opportunities for the poor?
• How can we encourage private sector businesses to go into housing and other small infrastructure projects, such as waste management and affordable and quality water purification for the poor and make these services affordable?
• How can we encourage local contractors and service providers, including small and micro business communities, to extend their services to low income areas, where there is significantly less disposable income?
• How can we offer the services of small private-sector service providers to the poor in a way that is not exploitative in quality or pricing?
• How can we ensure continued operation and maintenance of infrastructure that will include the poor?
• How can we make services more affordable to the poor by using smart subsidies to increase affordability and increase in-kind contributions by the poor?

2.6 Local Economic Development (and Livelihood Security)

What is the role of local economic development in sustainable urban development?63

• As mentioned in each section above, the private sector can supply critical urban development services and help meet some goals of environmental sustainability.
• Local economic development increases income with which people can purchase key services—health care, education, improved housing.
• Local economic development strengthens and builds a working, middle class with a stake in political decisions and stability. It supports civil society, providing leadership that can organize and advocate for changes in public policy that can improve infrastructure, land tenure, crime, democracy, etc.
• The private sector provides a tax base that municipal governments can use to improve infrastructure and services, such as health and education.
• The private sector creates many environmental challenges, and therefore needs to be engaged in order to improve environmental sustainability.

63 Ibid.
Similarly, progress in other areas of urban development is critical to the success of local economic development. Representative government, effective infrastructure and human services, a well-fed, educated, and healthy workforce, a safe and clean environment, security of tenure and decent business facilities, a secure and growing housing market—are all supportive components to local economic development and to business and economic growth.

The challenges of local economic development vary significantly. In developing countries—mostly in Asia and Latin America—there is significant growth and the challenge to ensure broad-based growth and so to lift more people out of poverty. In other countries, distribution challenges are compounded with low overall growth, which, particularly in Africa, is further constrained by the impact of HIV and AIDS. All cities, however, are now part of the global economy on some level and are affected by the competitive position of their industries, compared to other cities.

2.6.1 Strategies

Many different approaches to private sector development (see the box, “Microfinance Programs,” below), can be applied at the local level. However, the concept of “local economic development” is to bring and keep wealth into a location by marketing the industries and assets—land, culture, experiences—to external and local consumers. Value chain development, which links local industries to growing consumer markets, is a commonly applied tool in local economic development. Within local economic development, two communities of practice focus directly on poverty eradication: microenterprise development and livelihood security.

Microenterprise Development

Microenterprises have a critical role to play in local economic development because the majority of the world’s poor work on small-scale farms, in micro- and small-scale businesses, or urban-based microenterprises, which generate a significant portion of GDP in most developing countries. Microenterprise development consists of two critical activities, microfinance and enterprise development. Microfinance—the provision of very small amounts of credit, savings, insurance and other financial services—has successfully penetrated urban markets in developing countries on a large scale. Microfinance institutions strive to achieve scale and sustainability by charging interest and fees, but reach lower-income people through appropriate and innovative service offerings, efficient operations, and interest rates and terms that are preferable to informal (often exploitative) moneylenders. Microfinance helps households to save, invest, diversify, and even-out income and expenses.

Enterprise development is a broader community of practice focused on helping people start and grow their businesses. Strategies include:

- **business (re)start and market (re)entry**—helping people enter businesses and markets or reestablish businesses and re-link with markets after a crisis;

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Microfinance Programs

**Kenya Rural Enterprise Program (K-REP)**

K-REP is a leading African microfinance institution, founded in 1984 as a USAID project. The project developed into an NGO and, between 1997 and 2001, transformed into the K-REP Group, comprised of a regulated bank, a development agency, and a consulting firm. This transformation enabled K-REP to increase its outreach from 15,000 clients to more than 90,000 in four years, including the clients of the other MFIs it works to strengthen. K-REP has led a transformation of the financial system in Kenya, such that now microfinance institutions are a specific category of regulated financial institution, enabling them to mobilize and lend out savings and investment. In this transformation process, K-REP has remained focused on serving the poor. Despite its name, the majority of K-REP clients operate microenterprises in urban and peri-urban markets.

**Microfinance in Bangladesh**

The microfinance industry in Bangladesh provides financial services to over 13 million people. The lead organizations are Grameen Bank, BRAC, ASA, and Proshika. Bangladesh is home to the “Grameen model,” the most widely recognized and replicated microfinance service globally. The microfinance apex institution, Palli Karma Sahayak Foundation (PKSF), helped advance the Bangladesh microfinance industry by lending money to MFIs to build capacity, set industry standards, and advocate for an appropriate enabling environment for MFIs.


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64 De Feranti and Ody, 2007. The SEEP network defines “small enterprises” as micro, small, and medium-size firms and small-scale farms, according to local definitions and standards.


• commercial business services—facilitating sustainable private sector markets for business services such as information and telecommunications, consulting, accounting, photocopying and courier, etc.; and

• Value chain development—linking enterprises and local industries with growing market opportunities.67

The Value Initiative and this paper focus on value chain development as a high potential strategy for large-scale poverty eradication.

Livelihood Security

The livelihood-security community of practice uses participatory strategies to help very poor households build up their assets to reduce their vulnerabilities and achieve economic security. Livelihood-security strategies take into consideration institutional, economic, and political factors and help communities organize to navigate or confront these. Specific livelihood-security activities can then take place at the household or community level. They may involve microenterprise development, workforce development and assistance finding jobs, developing urban agriculture, addressing human services and basic needs (such as housing, water, sanitation, education), or enhancing representation and democracy.68

2.6.2 Innovations

Each of the above communities is involved in significant innovation, for example:

• Microfinance—microfinance institutions are mobilizing global capital to invest in microfinance institutions, even through the stock exchange. At the same time, microfinance professionals are challenging themselves to reach the very poor and hold themselves more accountable for their social objectives.69

• Enterprise development—the focus is on value chain development and other strategies for harnessing the power of markets to generate income and assets for the poor.70

• Microenterprise development—there is also recognition among microenterprise specialists that cross-sector initiative are critical to poverty eradication. Not only are microfinance and enterprise development needed, but we need to bring together different communities of practice for a concentrated effort to eradicate poverty.71

• Social enterprise—Mohamed Yunus, Bill Gates, and other global leaders are drawing attention to the concept of “social business” as a way for society to achieve both social and economic development.”2

Livelihood security—Some leaders in the livelihood-security movement are interested in strategies that help the very poor link better with markets.

There is much overlap among these strategies, and much synergy to be gained from cross-learning. Several communities of practice are working toward linking their strategies to develop more effective approaches to poverty eradication through local economic development and livelihood security. Thus, the Value Initiative is one of several strategies that is bringing together professional from different communities to seek synergy in developing new and more effective poverty eradication strategies.

### 2.6.3 Making Sense of Private Sector and Enterprise Development

#### Approaches and Terms

There are a wide variety of related approaches to pro-poor private sector and enterprise development. The communities of practice that pursue these strategies are overlapping and there is no single framework for them, but the following list can help you navigate the murky waters.

- **Pro-poor growth**—is the concept that economic growth, if it occurs in the right way, can reduce poverty. There are many different strategies for promoting pro-poor growth and many debates about which works best. Value chain development is one of many pro-poor growth strategies.

- **Business-enabling environment reform**—seeks to change government policy and regulation of the private sector to open markets and allow the private sector to generate economic growth, which benefits everyone, including the poor. Some experts seek to improve the business-enabling environment, specifically for small enterprises.

- **Employment creation and support for decent work**—seeks to promote employment creation and decent work as economies grow and develop. This perspective is sometimes addressed as an advocacy issue and is sometimes integrated into other private sector development strategies mentioned above.

- **Agricultural development**—seeks to increase the production and productivity of farming activities and to strengthen the agricultural support markets that supply farmers and help farmers sell and process products.

- **Making markets work for the poor (M4P)**—a broad development approach that proposes harnessing the power of markets to channel benefits to the poor, as an alternative to doling out large-scale, unsustainable subsidies or focusing on developing single enterprises. An M4P program might link small enterprises or farmers to high-paying or higher-volume customers or to better supply sources, like value chain development. Alternatively, the focus could be to helping the poor access electricity or telecommunication sources or help consumers gain better access to food, health care, water, or sanitation services.

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77 For more information on strategies for employment creation and supporting decent work, see the International Labor Organization website, www.ilo.org.


Market development—the term refers to private sector development strategies that seek to strengthen whole systems, such as enterprises, business relationships, market structures, and the business environment, so that they channel more benefits to the poor.  

Local economic development (LED) can combine elements of any of the other strategies and refers to efforts to develop smaller economic areas, such as cities, neighborhoods, rural communities, towns, or islands. LED applies a range of methods and strategies, including clustering, value chain development, market development, etc. Often, because of its local nature, LED applies a participatory approach.

Microenterprise development (MED) focuses on strengthening the very small businesses and farms that generate livelihoods and employment for most poor people around the globe. The SEEP Network focuses on two key and overlapping MED strategies, microfinance and enterprise development.

Microfinance and financial systems development—channels credit, savings, and other banking services to businesses and/or individuals with businesses and seeks to establish sustainable institutions and financial regulatory systems to strengthen the availability of private financial services. Microfinance is particularly targeted toward people with lower incomes who own microenterprises.

Enterprise development seeks to support the performance and competitiveness of industries and businesses. Small- or micro-enterprise development is a significant sub-field of enterprise development. Additional sub-fields might include export promotion, enterprise promotion, social enterprise, cooperative development, and sometimes cluster development. Different agencies define “enterprise development” differently. For The SEEP Network, both firm-level and market-level strategies are included in this concept.

Social enterprise and fair trade are related but different concepts. A social enterprise is a non-profit organization or socially-oriented venture that advances its social mission through entrepreneurial market-based approaches to increase its effectiveness and financial sustainability with the ultimate goal of creating social impact or change. Fair trade refers to markets and businesses in which producers are paid a “fair” wage and products are marketing to consumers who value this practice in their purchasing.

Bottom of the pyramid seeks to stimulate (big) businesses to sell goods and services, at a normal profit, to the poor, thereby improving their quality of life.

• *Value chain development*—increases the competitiveness of target industries to reach higher value markets. Pro-poor value chain development helps poor people access and benefit from reaching higher value markets. It is practiced by many of the above communities, and has its own frameworks and vocabularies. It is the focus of attention in this program for its potential to:

– link the poor with viable market opportunities and, in the process, achieve many of the goals of pro-poor growth, employment creation, microenterprise development, and local economic development; and

– achieve sustainability and scale by developing market systems, not just target enterprise.
Chapter 3

The Promise and Challenge of Value Chain Development

Value chain development is an economic growth strategy with promise as an effective urban poverty eradication tool. At the same time, practitioners face challenges in applying it effectively in urban areas. This section defines value chain development, explains how it works, and highlights its potential for poverty eradication. It then lays out the key challenges to urban value chain development.

Why is value chain development important? Value chain has the potential to drive sustainable and large-scale income generation and poverty eradication in urban areas.86

- Value chain development starts with market opportunities and links local industries and small and microenterprises to viable growth opportunities. Thus, it channels money and wealth into communities.

- It encompasses all of the other tools of private sector development and harnesses them to work for the same goal—helping a local industry and its enterprises become more competitive, viable, stable, profitable, and sustainable.

- It is a flexible tool that has relevance for different implementers, target populations, localities and markets—from global to local.

In practice, value chain development has yet to live up to its potential due to a range of barriers that the Value Initiative hopes to address and overcome.

What Is a Value Chain?

Value chains encompass the full range of activities and services required to bring a product or service from its conception to sale in its final markets, whether local, national, regional, or global. Value chains include input suppliers, producers, processors, and buyers. They are supported by a range of technical, business and financial service providers.87

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87 Ibid.
When thinking about how small-scale businesses can increase their participation and benefits from a value chain, practitioners analyze the chain and ask critical question about the value chain dynamics. Who buys what from whom and how? Which customer group has high and growing demand? Who is selling to them? Who do small-scale businesses sell to? What are the opportunities and barriers for small enterprises to sell to more lucrative markets? What are the social relationships among businesses like? Who has power in the market? The retailers? The wholesalers or traders? The producers or input suppliers? How do people gain information and improve skills? The goal is to understand the market opportunities, and what barriers target industries and businesses face in reaching them.  

The Embroidered Garment Value Chain in Pakistan

This describes a value chain before the development program started. In Pakistan, many women embroider, creating beautiful scarves and traditional garments that reflect their local cultures, which are rich and diverse. Most women do not market their work, but there is a significant growing demand for hand-embroidered garments among the growing urban middle classes. This demand remains largely unmet.

Why?

- **The value chain.** The core value chain consists of the customers, retail shops and tailors, open markets, home-based boutiques that sell cloth and garments, home-bound rural women who embroider, their male relatives who procure cloth and thread, and the manufacturers and shops that sell cloth and thread.

- **Relationships and “embedded” services.** The women embroiderers are not able to tap the market demand because of their social isolation. They rely on male relatives who know little of the embroidery craft and urban fashions, and who take the embroidered goods to local, low-value markets on their way to their own (mainstream) work. Urban trends are unknown by most trader and embroiderers. A handful of entrepreneurial women are trading in the sector, taking orders from urban retailers, and working with rural embroiderers to produce for the urban market—at lucrative prices.

- **Support markets (business service markets).** For high-end garments, designers create embroidery and fashion designs, but the designs for rural producers come from traditional designs and individual creations.

- **Enabling environment.** In general, the business and trading environment in Pakistan is relatively open and positive. Inputs are available, and there are many open markets, retail shops, and home-based shopping venues for women who prefer private shopping. The main constraint on the value chain is women’s social isolation, the immobility of rural producers, and the lack of effective trading relationships between them and urban retailers.

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88 Ibid.
89 Ibid.
• Enterprise performance. There is a strong base of traditional embroider skill, passed among women within households and small villages. Different regions have different design motifs. Most women do not find it profitable to produce for sale because the inputs their male relatives purchase are expensive, and the local markets offer low prices because income in rural areas is low and because their products are so similar to what most women produce at home.

3.2 What Is Value Chain Development?
Fundamentally, value chain development (VCD) links businesses to growing markets, on a widespread and sustainable basis. Value chain development programs build the competitiveness of growing industries and increase benefits to micro and small enterprises working within these industries. This is accomplished by supporting sustainable ways that improve the enabling environment, strengthen business linkages, and enhance enterprise performance. Sustainability and scale are fostered by stimulating commercial markets for business services, such as product design, productivity improvement, technology, marketing, and market linkages, etc. 90

3.2.1 What Do Value Chain Developers Do?
Value chain developers “facilitate” improved market performance. They do not engage in transactions in the market; they do not buy and sell products, and they try to avoid providing services directly to core businesses. Rather, they analyze end markets and value chains and work with industry leaders to develop a collective competitiveness strategy to advance the industry in ways that benefit the poor. VCD programs encourage and support businesses to pilot new business models, and then VCD programs support private sector consultants, business associations, and training institutions to disseminate these new business models. VCD programs subsidize research and development, and sometimes market entry, but then expect the innovations to take off in the market on a profitable basis. VCD programs also support leaders—such as business associations or research institutes—to continuously innovate and support the value chain. 91 Strategies for analyzing value chains and designing market-driven programs are available. However, detailed frameworks and guidance around facilitating value chain development—actual implementation—and around impact assessment, are in development.92

3.2.2 Value Chain Development, “Behind the Veil”—MEDA and ECDI, Pakistan
The Mennonite Economic Development Associates (MEDA) and the Economic and Community Development Institute (ECDI) 93 partnered to develop the embroidered garment value chain in Pakistan, with core goals of women’s empowerment and poverty alleviation.

• Value chain selection. First, the partners considered a range of markets that would offer strong opportunities for women. They chose embroidered garments because of the multiple markets, high prevalence of women workers, and existence of a few entrepreneurial women who showed that the market could work well for rural women.

• Value chain analysis. Then, the partners analyzed the value chain in depth, primarily by talking to representatives of different types of businesses in the market and to researchers and experts. As they talked, they explored different strategies for strengthening the market and got feedback on potential program design ideas.

90 Ibid.
91 Ibid.
• **Envisioning a well-functioning market.** The partners envisioned how the market might work well. Based on the few successful women entrepreneurs they met, they pictured a larger number of women “sales agents” trading between urban retailers and rural producers, bringing the rural producers affordable and appropriate inputs and market-driven designs. They imagined the traders buying design services to help them better read the market and transfer designs to rural producers.

• **“Facilitating” the market.** The program started by identifying and training women entrepreneurs to become “sales agents.” The agents used their own capital, but the program provided free training, mentoring, peer support, and personal introductions to retailers, and by subsidized their participation in trade shows. Within a year, trading started up, connections began to grow, and the program trained more women sales agents. Elite designers turned out not to be interested in this market, but program staff found “tracer designers” and encouraged linkages between these less formal designers and the traders. So, retailers and traders began to purchase design services from “tracer designers,” who created patterns for embroiderers to use to make new, standard designs. As the market grew, the program identified and addressed new barriers. For example, there was a need to better link retailers and traders, so several sales agents formed “buying houses” to host trade shows and play a wholesale role. The program supported these new, slightly larger businesses more intensively than the traders. For the next stage, the sales agents formed an association to continue to support the value chain.

• **Exiting the market.** After four years and approximately $600,000 of donor funding, ECDI and MEDA have exited this market. They are no longer active in facilitating the value chain. Trained sales agents operate profitably, bringing in new sales agents and new producers over time. The value chain could benefit from more investment and expansion, but the work that has been achieved is sustainable and expanding at a modest pace.

• **Outreach and impact.** The program reached 9,000 women, generating new income for new entrants, and tripling the income of women who were already in the market.

### 3.3 Who Develops Value Chains?

Value chain developers can be NGOs, consulting firms contracted by donors or governments, local or national government institutions, academic institutions, trade associations, or business associations. They can be organizations historically involved in enterprise development or organization engaged in other development initiatives. Good characteristics of value chain developers include:

• a “neutral party,” which is not an individual business in the market itself, where the goal is to develop the industry for everyone, not a particular business or interest group;

• an analytical and business expert, who analyzes markets for the staff and interacts effectively with individual businesses;

• a mission-driven focus, that drives industry growth toward employment and income generation for the poor; and

• a geographic focus, that clearly defines the group of businesses that make up the target industry.

There are a few organizations which might consider partnerships in order to help their clients benefit from value chain development, rather than getting involved themselves:

• **Small, community-based organizations.** When the geographic scope of an organization is small, it becomes challenging to select a value chain that will benefit enough members or target businesses, and CBOs usually do not have sufficient technical expertise. There are important roles for CBOs in value chain development, especially organizing and linking clients with the market, but running a VCD program is usually too challenging.
• **Microfinance institutions.** VCD is not, at the moment, a financially viable undertaking for implementing agencies, so it conflicts with financial sustainability goals of MFIs. In addition, MFIs do not usually have the technical expertise.

• **Social enterprises.** Social enterprises have a vested interest in the market, often as wholesalers or brokers. Although they can play a role in value chain development, they are not “neutral parties,” and they normally do not have market analysis skills because they focus on business and their particular function in the value chain.

**MEDA and ECDI in Pakistan**

MEDA in a Canada-based NGO with a business and economic development mission and skill set. ECDI is a Pakistan-based NGO with a focus on training middle-income women entrepreneurs. Both organizations developed their capacity for value chain development during the design and implementation of their program in Pakistan, with support from The SEEP Network and other global communities of practice. ECDI’s staff members are primarily business trainers used to working with educated clients. The program called for a shift in personnel, and ECDI hired women who were experienced in the industry or in more grass-roots organizing. ECDI is run by its founder, Parveen Shaik, a visionary social entrepreneur. MEDA and ECDI have received funding to conduct value chain development in different industries in Pakistan, based on their success in the embroidered garment value chain.

**3.4 What Has Value Chain Development Accomplished? (A Few Success Stories)**

The following additional examples of SEEP member programs illustrate the strategies and outcomes of value chain development. Notice that in each example, the main business partner is an “intermediary” (trader) or a lead firm (a buyer that sub-contracts to small-scale producers—not the target microenterprise—yet the main beneficiaries are the microenterprise producers).

**3.4.1 Aid to Artisans and AGEXPRONT, Guatemala**

After years of decline in craft exports, the USAID-funded Guatemala Craft Sector Export Initiative strengthened the Guatemalan craft sector by assisting exporters in gaining access to international markets. The program stimulated a private sector market for design services, built exporter capacity to participate in international trade shows, hosted buyer visits, and developed business models for the association to offer these services on a sustainable basis. Three years and $800,000 later, Guatemalan craft exports rates shifted from an annual decline of 30 percent to an annual growth rate of 7 percent. Exporters directly assisted by the program generated US$ 1.53 million in export earnings and purchased crafts from 8,900 artisans, 75 percent of whom are women. A recent impact study concluded that artisans affiliated with these exporters experienced higher sales than others. Exporters reported that the primary reasons for their increased sales were improved designs and market linkages, rather than a general shift in market demand. Its sustainability is built in: a Guatemalan design institute trains new designers whom AGEXPRONT links with exporters, exporters attend international trade shows, and AGEXPRONT facilitates design workshops and buyer visits for fees and commissions.

**3.4.2 Mercy Corps, Azerbaijan**

This international NGO has helped 11,500 remote, rural livestock farmers gain sustainable access to commercial veterinary services. Mercy Corps organized farmers into clusters and developed a cadre of commercial “village vets,” who provide basic services and link farmers more efficiently to higher level veterinarians. The farmers, 36 percent of whom

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94 Ibid.
95 More promising practices and success stories can be found on The SEEP Network’s Enterprise Development Exchange website (http://edexchange.seepnetwork.org) and ILO’s website (http://www.ilo.org).
are women, contribute some $13.4 million to the regional economy and have increased their income by 40 percent, due to improved animal health and related productivity increases. This was achieved in 4–5 years, with a program cost of less than $600,000. Sustainability here comes from collaborative clusters: commercial “village” vets have formed clusters to collaborate together to continuously organize more livestock farmers into viable groups, provide them access to standard veterinary services, offer new services, and expand the village vet system by bringing in more junior vets to work under the lead vets.97

3.4.3 Emerging Markets Group and USAID-Kenya BDS

By linking African Farmers to markets, the Kenya BDS program works to increase growth and incomes for small rural enterprises through access to markets and business services, so they can compete in target sector markets. In its initial four years of operation, Kenya BDS has helped 54,355 small enterprises gain to access commercial business services and linked 14,844 with the commercial market. The USAID-Kenya BDS program is a $5-million, five-year program, implemented by the Emerging Markets Group. For example, in the tree fruits sub-sector, Kenya BDS contracts facilitators to work with lead firms, farmers’ groups, financial institutions, and service providers. These facilitators link farmers to markets, and finance inputs and technical services to meet market requirements. Markets continue to expand independently of the program as more lead firms copy the original lead firms, and as service providers fan out around rural areas to serve more farmers.98

For more success stories and to share yours, comment on the Enterprise Development Exchange (http://edexchange.seepnetwork.org).

3.5 Challenges for Urban Value Chain Development

With all of this potential, what is holding value chain development back from making a significant contribution to urban poverty eradication? Along with continuous innovation in VCD methodologies, there are fundamental technical challenges in general value chain development that have not yet been solved, particularly reaching scale, achieving sustainability, reaching the poor and very poor, and demonstrating impact. Pro-poor value chain development has so far been practiced primarily in rural areas and in production sectors, rather than in the retail or service sectors. Lessons need to be translated to be effective in urban areas and especially in retail and service markets where the poor are concentrated.

One factor pushing the microfinance field forward has been global collaboration, marketing, and capacity building. These are at all nascent stages in the value-chain development community of practice. In addition, while there may be weak value-chain development experience in urban areas, there are a plethora of on-the-ground institutions in cities. What kinds of partnerships will work well for urban VCD? These challenges are addressed in the next chapter, which presents potential strategies for addressing them.

98 Ibid.
Chapter 4

Urban Value Chain Development Challenges

I like to call this new system creative capitalism—an approach where governments, businesses, and nonprofits work together to stretch the reach of market forces so that more people can make a profit, or gain recognition, doing work that eases the world’s inequities.

– BILL GATES, WORLD ECONOMIC FORUM, 2008

Addressing the challenges of urban value chain development calls for creative solutions that corral different skill sets and knowledge that are housed in different communities of practice. This chapter lays out the key challenge of urban value chain development, along with some creative suggestions on how to address them. We seek your reactions, your creative and practical suggestions. The results of the dialogue will help the Value Initiative form its learning agenda for urban value chain development.

4.1 General Value Chain Development Challenges

There are many challenge areas in value chain development, but the fundamental “next frontiers” are achieving more significant scale, sustainability, outreach to the poor and very poor and more effective impact assessment.

4.1.1 Sustainability and Scale

Value chain development is very much concerned with sustainability and scale and has made significant strides over the past 5–10 years. In value chain development, there are layers of sustainability, but the ultimate goal is to stimulate vibrant, growing market systems. Along the way, programs strive to ensure the sustainability of:

- target microenterprises themselves, which ensure that enterprises are profitable and viable without subsidies;
- value chains, which ensure that market linkages from input supply through retailing to

the end customers are strong, profitable, and numerous;

• business service markets, which ensure that the services (design, certification, repair services, information services, process improvement consulting, etc.) that support the value chain and help it respond to shocks and trends are available through a choice of profitable businesses;

• secondary business services, which ensure the presence of professional training institutions that train and certify business service providers, train new services providers, and upgrade skills of existing services providers; and

• market facilitation or leadership, which ensures that business associations, local government agencies, and on-the-ground NGOs are in place and well funded to continuously strengthen the target industry and help promote positive social values that enhance sustainable poverty eradication.

4.1.2 Embroidery Sector, Pakistan

The MEDA/ECDI program has made progress in achieving sustainability in all levels of this sector by following these guidelines:

• Target microenterprises themselves. The embroiderers are making a profit, and a large number of them remain engaged, increasing sales over time.

• Establish value chains. There are numerous, often competing sales agents, who link embroiderers to input and markets. There are several buying houses that link rural and urban retailers. Sales are growing over time, with no additional subsidies, and new embroiderers and sales agents are entering the market without program intervention.

• Find business service market. The sales agents provide business services—inputs, training, equipment, and often social support as well—to their embroiderers. In addition, the sales agents and some retailers purchase design services from “tracer designers.”

• Offer secondary business services. Several trainers are beginning to offer training to new sales agents on a commercial basis. Otherwise, new sales agents are brought in as sales representatives of the original sales agents, who train the newcomers.

• Market facilitation or leadership. There is a sales agent association formed with a mission to continuously develop the sector with the dual purpose of generating income and empowering rural women.

However, there are critical problems with this model as it has been practiced to date:

• It is still too small and too slow. Many value chain initiatives have only reached 10,000 enterprises. Although markets expand after the initial programs end, they are expanding very slowly. One fundamental reason is that programs and the businesses in the sector are undercapitalized: most of these programs took root in under five years and received less than US$ 600,000 in funding. Value chain businesses, in turn, have generally not accessed external financing at all, but have relied on their own savings.

• Lack of capital continues to dog this model because there is no way to invest. The lack of capital among micro and small enterprises is well documented. Despite the inroads of microfinance and emerging models for value chain financing, finance remains a major constraint to value chain growth. Today, a relative abundance of social capital is available globally. How can value chain developers take advantage of this social capital, given their commit-
ment to “facilitating” the market rather than being social enterprises themselves?

• **It is too local, still relegated to the private sector.** The value chain development programs that have reached the poor are highly local and rely almost entirely on private sector and NGO initiative. They are rarely linked with national economic development initiatives that could support broader application, investment, and competitive positioning. In order for value chain development to have a wider impact, efforts may need the support of city-and national governments, which in turn may need to invest in high potential industries.104

Value chain development might learn some lessons from other development approaches that have more successfully achieved massive scale and sustainability, particularly social enterprise (including microfinance) and fair trade.

### 4.1.3 Social Enterprise

“We social business will be a new kind of business introduced in the marketplace with the objective of making a difference in the world.”

— MOHAMMAD YUNUS, FOUNDER, GRAMEEN BANK, AND NOBEL PEACE PRIZE LAUREATE105

Social enterprise combines profit and social motives and offers an opportunity for entrepreneurs and investors to merge their economic and social values. It mobilizes the power of business management and operations to the achievement of social objectives. Microfinance, in general, is a form of social enterprise: witness the millions of low-income people who now have access to financial services through this rapidly expanding and increasingly profitable industry. Social enterprises come in all sizes, from small community-based enterprises to global trading entities, and currently have strong, global momentum.

What lessons can large-scale MFIs, and social enterprises, like Grameen Phone or ITC e-choupals, share with value chain development?

• They are able to mobilize private finance from businesses and foundations.

• They often benefit from the engagement of entrepreneurial funders, many of who made their fortune in the technology boom.

• Their missions and way of doing business are clear.

What limitations does social enterprise have, from the perspective of value chain development?

• The largest scale social enterprises, so far, generally sell to the poor, using a “bottom of the pyramid” approach, rather than purchasing from the poor. Thus, although they have potential as suppliers of urban services, they have less of a track record at bringing wealth into poor communities.

• Social benefits are not regulated nor easily measured. As is the case with VCD, the social enterprise and microfinance communities are developing social performance standards, but these are not yet in place.

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• Social enterprises may be monopolies. Social enterprises are single businesses. On one hand, they may compete unfairly against other unsubsidized businesses in the market. On the other hand, if there is no competition, low-income consumers or producers have no choice in business partners. The benefits, thus, depend on one entrepreneur and his or her set of investors, rather than on a dynamic market system.

4.1.4 Fair Trade

Fair trade is the act of purchasing products or services from people at a living wage or above. Fair trade organizations (FTOs) are social enterprises—at least 50 percent of their income must come from sales—but they are fundamentally development, labor, or political organizations, more than just businesses. In 2006, the International Federation for Alternative Trade (IFAT) reported that total fair trade sales globally topped US $2.6 billion. Originally launched in the craft sector, fair trade products are now offered in core commodity sectors, such as coffee, tea, chocolate, etc. ¹⁰⁶

Fair trade offers some lessons for VCD scale and sustainability:

• Fair trade is marketable. It is easily understood, and products with an FTO label are certified to offer people a fair wage.

• FTOs have successfully linked producers in developing countries with high-value markets, on a large-scale.

• When one product succeeds—such as coffee—it generates demand and investment for other products.

A challenge for the fair trade movement is that, because it is so rooted in development organizations, profitability, and thus financial sustainability, is less of a focus.

4.1.5 Learning Agenda: Sustainability and Scale

How can value chain development initiatives increase scale and sustainability?

• What business and program models contribute to massive scale-up and sustainability of value chain development initiatives? Is there a role for social enterprises? Which roles would they play? In the value-chain development model, which institutions should become profitable and attract investment? The value chain development organizations? Lead firms and businesses in value chains? Small and microenterprises?

• Would value chain development be more marketable as Fair trade or social enterprises? How would value chain development need to adjust to become certifiably fair trade or to offer social investment or social enterprise opportunities?

• How can finance be mobilized for sustainability and scalable scale-up? What innovations are needed to make adequate capital available for increased scale? Who needs what kind of capital?

What characteristics of a market system ensure its sustainability? Can these characteristics be created or do they need to be selected for? Or what combination of these two? To what extent are the successes in scale and sustainability transferable across different kinds of markets?

- How can we know when the growth of a market system has reached “critical mass” and will continue to grow without intervention? What happens if intervention is stopped before or after the optimal point? What strategies can be used to lessen error?
- Do advanced strategies for scale-up and sustainability require different approaches to exit by facilitators than typical program exit strategies? If so, what is different, in terms of activity and timing? Why is it different? What can these teach us about other models?

4.2 Reaching the Poor and the Very Poor

Another challenge facing value-chain development programs is reaching the poor and very poor. VCD approaches demonstrate the power of working with larger businesses in order to reach and benefit the poor and very poor. VCD programs reach the poor as enterprise owners, but also as employees, suppliers, and consumers. VCD practitioners continuously strive to reach further down-market and to understand and enhance benefits to the very poor.107 This challenge is true for all economic development programs, including microfinance.

There are three specific challenges in reaching the very poor:

1. How does one reach the very poor and engage them in sustainable enterprise development activities? This is particularly challenging in low-growth countries that are late comers to the global market. For these least developed economies, concerted national-level strategies may be needed to link local economies to global parents in a lucrative manner. Otherwise, global linkages can exacerbate, rather than eradicate, poverty.108

2. How does one identify the very poor, and measure whether they are being reached, and if and when they cross from one level of poverty into the next?

3. If and how can one build incentives into value chain development programs—and their partners—for reaching the poor and very poor.

4.2.1 Outreach to the Very Poor

The following are strategies that, when integrated into VCD programs, seem to improve outreach to the very poor. These need to be integrated with more consistency, and the challenge of achieving both poverty outreach and effective market development reconciled.

- Gender analysis and gender appropriate targeting. VCD programs do not necessarily have to target women, but taking gender dynamics into account and addressing poverty needs of the entire family is important.109

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• **Improving working conditions for workers and the self-employed.** For example, the Self-employed Women’s Association (SEWA) model in India organizes women who are informal sector workers and helps them to address a wide range of their needs, from improved earning to safer working conditions to child care and access to health service.  

• **Offering business start-up support and vocational training for people with more barriers—youth; women who are entering the workforce who have not been in business before; people exiting from criminal activities or other traps, such as the sex trade; people recovering from disaster and war.** These services are less likely to be financially sustainable, but new innovations are being devised to provide grants that lead to sustainability, as opposed to dependence.  

Tools might include stepped grants, such as those provided by Trickle-Up, or individual development accounts, such as those developed in the U.S. for housing, education, and business.

• **Establishing links to financial services** to ensure that capital is available.

• **Using comprehensive approaches to reach people with multiple barriers,** such as people affected by HIV and AIDS, populations that are discriminated against, people with disabilities etc. VCD programs can work with partners to ensure that target populations have access to key life-supporting services: health and nutrition, education, and psycho-social, plus social inclusion.

• **Supporting initiatives that empower the urban poor,** as individuals, as families, and as communities, and integrating empowerment strategies to leverage and increase the effectiveness of economic development initiatives. These might include subtle strategies, such as those employed in the “Behind the Veil” program in Pakistan, organizing strategies like SEWA, and public advocacy initiatives like the SE Radio.

The main questions, considering these strategies along with the already complex challenge of value chain development, are:

1. What changes in structure, funding, goals, and training are needed for VCD programs to be effective with the poor and very poor?
2. What strategies are needed to continue to engage large private sector businesses and at the same time reach the poor?
3. Is it just too complex?

### 4.2.2 Poverty Assessment and Targeting

The SEEP Network and others have pioneered methods for identifying and tracking the poverty level of microfinance clients. These methods estimate whether households, or a group of clients, are living below the global poverty line, using proxy indicators that are customized to local conditions, and are relatively simple and non-invasive to administer. The proxy indicators have been tested to correlate with income levels using national household consumption data. Typical questions, for example, include whether the family owns a television or radio, what type of housing material and how much housing space they have, and whether and how many animals they keep, etc. The microfinance methods are still being adapted to different country contexts, but the basic principles are in place. These tools need to be adapted somewhat for VCD programs.

There are some particular challenges to assessing poverty in a value chain development:

• VCD programs operate several steps removed from their target low-income clients. With this indirect relationship, how can even relatively simple surveys be conducted?

• VCD programs try not to let clients know that there is a development organization involved in the market because they do not want to distort the market. So, how can they gather data from clients without lying?

• VCD programs are underfunded and the priority is usually on achieving output goals, not outreach goals. How can poverty outreach goals be better incorporated into the up-front goals of VC programs, which are usually funded out of a private-sector donor program?

4.3 Impact Assessment

For the Value Initiative, “impact assessment” means developing reliable estimates for the results of programs at the goal level. It is primarily focused on understanding the poverty reduction effects of programs. Impact assessment usually relies on a combination of information from internal impact assessment systems in programs, and external studies. Internal impact assessment systems necessarily build on good monitoring and periodic assessment of intermediate results, particularly changes in organizations (public and private), institutions and markets.

Impact assessment is a significant challenge for value chain development programs. Why? First programs must establish to what extent enterprises and household affected by the program have changed. Next, program must determine how much of that change is due to program activities and how much would have happened even without the program. These are challenges for all programs but present particular difficulties for VCD programs because:

• Clients of VCD programs choose whether to participate based on new incentives, information, and opportunities that arise due to the program, which means VCD programs can not identify their participants in advance.

• VCD programs do not interact directly with clients. It is not always easy to determine who has been affected and who hasn’t, which makes it difficult to determine who to gather information from and to gain their cooperation.

• Methods, such as quasi-experimental designs, are needed in order to attribute change to the program, which adds complexity to data gathering and analysis.

• VCD programs have several phases—up-front assessment, pilot, market up-take, and then exit. Each phase calls for slightly different but related impact assessment strategies.

• VCD programs aim to address the root causes of the failure of a value chain to benefit the poor. This means that causal chains linking program activities to poverty reduction are often long and many other factors also influence the links in the chain.

• There are not yet any global guidelines or standards for impact assessment in VCD.

Despite these challenges, advancing this area of practice is urgent because over time audiences begin to assume that if impact is not demonstrated, it is because it is not there. Value chain development is under pressure to demonstrate relevance, on the one hand, to public donors who care increasingly about poverty eradication and, on the other hand, social investors who care about financial and social returns. Impact assessment is a critical component of satisfying these audiences and, hence, mobilizing funding for expansion.

The good news is that programs that are developing internal systems to estimate impact are finding it not only valuable for satisfying donors and other stakeholders but also very useful as a management tool for designing, steering and learning from program activities.

Impact assessment has historically taken a low priority for enterprise development programs and there is little, credible data to date on the impact of enterprise development programs.113 As the Millennium Development Goals deadline approaches, this is beginning to change. A number of agencies are working on approaches to estimating impact either

113 Tanburn, 2008; Panlibutton, 2008; www.katalystbd.com; Aid to Artisans, 2007.
through internal systems in programs or better external evaluations. In particular, a new approach is emerging to set standards for credible, internal impact assessment systems, rather than searching for a one-size fits all approach.

The Value Initiative will join other organizations around the globe in pursuing effective and practical impact assessment strategies. Given the need to reduce the complexity and cost of impact assessment, a number of questions jump to the fore:

- What information is the highest priority for whom and why?
- How can impact assessment be better integrated into performance goals, so that there is adequate incentive for it?
- How can VCD learn from and leverage other impact assessment work?
- What are the elements of a credible internal impact assessment system?
- How can results from different programs be added up to show the overall results and impact of VCD as a global strategy?
- When estimating results, how can programs balance accuracy of the findings with simplicity of the data gathering and analysis system?

### 4.4 Urban Value Chain Development Challenges

To date, value chain development for small-scale producers has focused largely in rural areas, particularly in agricultural and craft markets. There are two critical challenges in urban value chain development: 1) translating lessons to different kinds of value chains, and 2) leveraging the plethora of urban institutions and resources.

Urban areas offer more opportunity for different kinds of value chains than rural areas because of the density and diversity of economic activity. Some broad categories of urban markets are described below, along with the progress, potential, and challenges in each.

#### 4.4.1 Growth Sectors and Global Markets

In every developing country, there are a few key sectors with the potential for generating significant economic growth. Ideally, the government promotes these industries. Usually, the strategy is to link producers to global markets. The challenge is to link urban enterprises and the poor to these growth opportunities. For example, the International Finance Corporation’s South Asia Enterprise Development program in Bangladesh effectively helped the urban-based ready-made garment sector—the largest exporter and non-agricultural employer in the country—to survive a significant global policy change that threatened the industry, which employs 2.2 million people, mostly low-income women. The program is also making significant progress in improving working conditions, thanks in part to consumer demand for more equitably-produced clothing. Can this program and this strategy be replicated in other regions and sectors?

#### 4.4.2 Urban Retail and Service Sectors

One challenge in adapting value-chain development strategies to urban areas is that so many microenterprises—especially those run by the poor and by women—are retail or service businesses. Triple Trust Organization in South Africa, with a SEEP Practitioner Learning Program grant, developed an initiative to help urban grocers to compete better in their own neighborhoods, when large-scale grocery chains began to invade the townships. Procter and Gamble, for

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112 For example, GTZ, SNV, DFID, and USAID.
113 See http://www.enterprise-development.org/groups/group.asp?groupid=5
114 Meyer-Stamer and Haar, 2008.
example, is currently developing strategies to better link with just such “high-frequency” neighborhood shops. World Education, also in South Africa, tested urban value-chain development strategies in the construction sector and helped 10,000 micro and small enterprise contractors (32 percent women) access sustainable training and US$ 6-million worth of contracts. Can value chain development be applied equally to common retail and services businesses, such as produce marketers, hardware stores, restaurants, and hair care?

### 4.4.3 Rural-Urban Linkages

Rural and urban economies are linked through value chains that bring imported or urban products to rural areas and rural products to urban areas for consumption, processing, and export. These markets have significant forward linkages to other employment- and income-creating sectors. For example, the light-metal engineering sector produces farm and food processing equipment, and urban food distributors and retailers rely on rural farmers. To what extent does helping rural producers sell in the city also benefit the urban poor? How can these benefits be enhanced? How can improved linkages be reversed so that urban poor producers or traders benefit from rural growth opportunities?

### 4.4.4 Infrastructure, Housing, Human Services, and Environmental Value Chains

As mentioned in chapter 1, value-chain development strategies are being applied to infrastructure, housing, and human services and environmental markets. There is potential for work in these value chains to generate income and assets for the poor as well as improve living and business conditions and contribute to environmental sustainability. Which of these markets shows the most potential for poverty eradication? How does value-chain development practice need to be adapted for these types of urban markets and enterprises? To what extent can these commercial approaches reach the poor and very poor, and how?

### 4.4.5 Leveraging Urban Institutions

Cities are rich in organization and institutions, compared to rural areas of the same country. How can value chain development leverage the presence and expertise of these institutions? A consideration of urban MFIs may shed some light on this issue.

### 4.4.6 MFI Strengths

MFIs have the strongest track record in reaching urban microenterprises on a large-scale and sustainable basis. However, the microfinance movement recognizes that finance alone is not enough to develop microenterprises and eradicate poverty. MFIs have been pursuing a range of paths that overlap with value chain development, as follows:

- **Social enterprises.** Grameen Trust and Bangladesh Rural Advancement Committee both run social enterprises that serve the poor in energy, communication, and information technology, knitwear, crafts, and poultry.

- **Strategic alliances with value chain development or economic strengthening work with the very poor.** For example, K-REP, the leading microfinance institution in Kenya, and Kenya BDS (a USAID-funded program) partnered to offer financial services to HIV and AIDS-affected fishing communities. Kenya BDS is developing the market, while K-REP provides savings, one-day loans, and loans to fishing gear providers. The program aims, among other things, to protect women from the sex-for-food trap they encounter when they run out of capital to purchase fish.

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121 Diaz Villeda and Hansel, 2005.
• *Integrating development information* (health, numeracy, basic business skills, HIV/AIDS prevention and counseling, and civil rights, democracy, and governance). Pro Mujer and Freedom from Hunger, two SEEP members, successfully pursue a “credit with education” model in which they integrate basic health, business, and literacy education into their microfinance group meetings.¹²²

• *Offering or linking clients to business services.* SEEP member Acción International has successfully launched a sustainable business training initiative where clients purchase business training and counseling services.

These strategies can all be utilized in service to developing a particular value chain, business, infrastructure, or social service market. There are still many questions about the role of MFIs in value chain development. How does enhanced collaboration best impact the poor and the very poor? What kinds of initiatives can best support MFI performance and sustainability goals, and which ones put MFIs at risk? What are the characteristics of MFIs that make them prepared, in terms of capacity, to handle different kinds of value chain development work?

### 4.5 Capacity and Implementation Challenges

On one hand, academics and economic and enterprise development professionals are investing significant resources into advancing value chain development, in an ad hoc manner. On the other hand, value chain development is a difficult term to market, and a difficult technique to transfer. The microfinance, social enterprise, and fair trade movements all demonstrate the power of simpler ideas to gain momentum among funders and practitioners. In order for value chain development to be a more effective tool, the community needs to find better ways to communicate and build capacity around the core concepts and tools. Currently, value chain development training and research is fairly centralized in a few European and U.S.-based training centers and networks. And, there is no global hub for this community of practice. The SEEP Network, with the launching of the Enterprise Development Exchange, is offering such a hub.

Urban value-chain development presents opportunities and challenges for capacity development. On the one hand, urban areas are rich in human and institutional capacity, compared with rural areas, and it is often easier to get government attention and resources for critical issues. However, in cities, organizations with value-chain development expertise are small players in a large arena. In rural areas, they are bigger players in smaller arenas.

• What is needed to advance learning and practice in urban value chain development globally?

• Among urban development organizations, who are strong potential partners for value chain developers? Who has the on-the-ground presence and interest in, and knowledge of, local economic development?

• What is the best capacity building strategy for disseminating value chain learning in urban areas?

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Chapter 5
Summary of Key Discussion Questions

This paper is a “think-piece” to launch the online conference, Urban Value Chain Development, April 29–May 22, 2008, on The SEEP Network’s Enterprise Development Exchange (http://edexchange.seepnetwork.org). The purpose of the conference is:

- to facilitate dialogue and partnership among urban and enterprise development practitioners and other experts;
- for specialists in each community to learn the fundamental approaches and issues in each other’s discipline;
- to develop a research agenda for urban value chain development; and
- to launch The SEEP Network’s Value Initiative to advance urban value chain development and help millions of people work their way out of poverty.

The conference will be facilitated in four sections, with lead questions for each section. The conversation will be fairly free-flowing and participants are welcome to comment on any topic after it has been raised until the end of the conference May 22. After that, participants can continue discussion on the open discussion platform of the Enterprise Development Exchange. The dialogue will be facilitated by Mary McVay, director of the Value Initiative and a researcher and trainer in value chain development. Expert discussants include Linda Jones and Alexandra Miehlbradt, both conceptual leaders in value chain development. Other value chain and urban development specialists will be participating and will be recognized during the conference. After the conference, contributing participants will receive a certificate of appreciation. Requests for applications for funding under the Value Initiative will incorporate the outcome of this discussion and will be released in late May or early June. The Value Initiative and the Enterprise Development Exchange are funded by the Bill and Melinda Gates Foundation, to which we are grateful for this unique opportunity.

The broad question for the conference: how can we harness the resources of today’s cities to eradicate poverty?
Part 1: Urban Development

The Urban Poverty Challenge, Our Urban Future and the Concept of Sustainable Cities

- What are the critical challenges for the urban poor?
- What are the opportunities for cities to address poverty today and prepare for future residents, to help them realize the dreams that bring them to cities in the first place?

Approaches to Urban Development

- For urban development professionals: please comment on the summary of issues presented in chapter three, “Urban Development Strategies.” Are there major issues missing? Are there approaches, nuances or recent trends in thinking and practice you’d like to highlight? Please share challenges and success stories from your experience.
- For enterprise / value chain specialists: what questions and comments do you have about approaches to urban development and urban development issues?

Part 2: Value Chain Development

About Value Chain Development

- For enterprise/value chain specialists: please comment on the summary of issues in chapter 3, “The Promise and Challenges of Value Chain Development.” Are there major issues missing? Are there approaches, nuances, or recent trends in thinking and practice you’d like to highlight? Please share challenges and success stories from your experience.
- For urban development professionals: what questions and comments do you have about approaches to urban development and urban development issues?

Value Chain Development Challenges

- General: What comments or questions do you have about the presentation on challenges to value chain development? What do you see as solution to some of these challenges? Is there a significant challenge missing?
  - Sustainability and scale
  - Impact assessment
  - Poverty eradication
- Urban value chain development: What comments or questions do you have about the presentation on challenges to value chain development? What do you see as solution to some of these challenges? Is there a significant challenge missing?

Part 3: Synergy

This is the heart of the conference, when we will brainstorm new approaches and strategies.

- How might a value-chain development lens help achieve urban development goals? Could it help organize efficient and sustainable delivery of key services like water and sanitation, housing, energy? Could external market linkages bring wealth to communities to support better living conditions? Could it help market and distribute green energy products?
What kinds of value chain development opportunities are presented by a deeper understanding of urban issues? Could linking with organizations that represent poor communities help improve the governance and regulation of targeted industries? Could linkages with comprehensive city planning initiatives help mobilize more resources for and improve governance of high potential sectors? Does the provision of housing, infrastructure and human services represent a high potential market for urban microenterprises?

Part 4: The Value Initiative and Advancing Urban Value Chain Development

Participants will be invited to review a synopsis of the Value Initiative, ask questions, and make comments about the program.

A central goal of the program is to build the capacity of “on-the-ground” organizations for implementing value chain development. Consider the following questions:

- What is needed to advance learning and practice in urban value-chain development globally?
- Among urban development organizations, who are strong potential partners for value chain developers? Who has the on-the-ground presence, interest, and expertise in local economic development?
- What is the best capacity building strategy for disseminating value chain learning in urban areas?

We encourage those of you considering applying for the program to also ask any practical or logistical questions and to make suggestions regarding implementation ideas.
Bibliography


Ba, Awa. 2007. “Alliances between Farmers and Other Actors in Dakar.” Silang, the Philippines: RUAF Foundation.


