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# The 2005 Reader



## From BDS to Making Markets Work for the Poor

By Alexandra O. Miehlebradt and Mary McVay  
Jim Tanburn, Editor

Annual BDS Seminar • 2005

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**The 2005 Reader**

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Jim Tanburn, Editor

*Note:* In previous years, this Reader has focused on BDS market development and been called the "BDS Reader." This year the Reader focuses on Making Markets Work for the Poor.

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## Editorial, by Jim Tanburn

Which approaches will give the best possible results, with the limited aid funding available? Good answers to this question take time to develop, yet time is the scarcest commodity for many development professionals. So this Reader provides a rapid and thorough review of what people have been doing and thinking in the last year, around the world and in many different agencies. We hope that it can support you in articulating the logic of your work; you will find it most useful in going beyond fashionable reactions against past failures, in order to build on what has worked - and is working now.

That includes successes outside the development world - experts in education, health and other fields are uncovering extensive provision of services by the private sector to the poor. Contrary to what often has been assumed in the past, the poor sometimes prefer these services over the free-of-charge public provision, as they can have more control when they are customers. There are many such assumptions driving development work that are rarely articulated and therefore rarely reviewed, including for example:

- provision of free services on a large scale, and to a high quality, is a realistic public policy goal
- policies and regulations will always be enforced in a transparent, thorough and logical way
- reforms, and indeed results more generally, are achieved by institutions, not by individuals
- there is a methodology / approach / tool that will be effective in all situations

One recent achievement has been to move on from some of these assumptions, as is brought out in this year's Reader. For example, until a few years ago, it was generally assumed that commercial service providers (especially traders) were invariably thinking of short-term profits, and could never be trusted to take a long-term view. Now, there is a more nuanced and informed view in evidence in many projects, looking for example at value chains: some traders can reach the rural poor more cost-effectively than we can, and can provide a range of useful services.

Indeed, one of the most encouraging trends is a growing interest in the complex nature of reality. Since research is pointing to similar conclusions in many service markets, we need to find common elements that can inform professionals working in different disciplines, so that they can learn from the successes and failures of each other. This is the appeal of "Making Markets Work for the Poor".

It is, however, a broad concept – which may be difficult to assimilate within the existing structures of the development community. Can something that cuts across technical and administrative lines add value? Nonetheless, and despite this being a new field<sup>1</sup>, some pointers are already clear.

The role of governments in developing countries is an interesting one in market development; understanding about its potential - and indeed how to do it - varies tremendously between different Ministries and sectors. This is a major opportunity for development agencies: to stimulate the exchange of experiences between sectors, on how to enhance markets in ways that work for poor people. Policies and regulations, for example to ensure a fair and competitive environment, are key, as is the targeted and efficient use of subsidies.

<sup>1</sup> www.mmw4p.org can serve in the future as a repository for learning on this

Donors increasingly need to disburse funds in larger programmes, and market development interventions are needed that can cater to this need. That may mean large-scale campaigns and policy reforms, for example, or a focus on massive consumer education and information. Also, there have been few voucher schemes designed exclusively to develop service markets, and much work is needed to explore this potential.

Measuring results is more important than ever; a number of projects originally conceived to develop BDS markets are now reaching the stage where they can provide 'test beds' for methodologies that look at systemic impacts. What has changed in the market systems in the long term, beyond the simple, short-term impacts that are so much easier to quantify?

The Reader gives early answers to many of these questions, but some will take years to resolve fully. Combining events, such as the BDS Seminar, with documents like this Reader, and the various websites referred to, has simulated much sharing of knowledge between agencies. Our thanks to all those who offered information for this Reader; your enthusiasm, and the implied willingness to learn from experience, are much appreciated. I very much hope that we can maintain this momentum in the coming year.

My particular thanks goes to the Swiss Agency for Development and Cooperation (SDC) for financing the preparation and publication of the Reader - in three languages - again this year. Thanks also to the ILO's International Training Centre in Turin, for once again hosting the Seminar, and for contributing to the costs of publication.

Aly Miehlsbradt and Mary McVay deserve all the credit for having assimilated a huge mass of material, with great enthusiasm, into a readable and important document, for the sixth year in succession. The outcome is original and fresh, and I trust that you will enjoy reading it.

Jim Tanburn

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The authors are grateful to the practitioners, researchers, experts, and donors whose hard work, innovative thinking, and heartfelt efforts we have attempted to capture in this Reader. Their willingness to share information on their programs, innovations, challenges, and lessons learned is greatly appreciated.

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The authors are also grateful to their spouses for their technical and personal support. This year's edition is dedicated to the millions of poor people around the globe and to the leaders and development practitioners working to end poverty.

Alexandra Miehlsbradt  
Mary McVay  
Market Development Consultants



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# Acronyms

AFE	Action for Enterprise
AMAP	Accelerated Microenterprise Advancement Project
ARC	American Refugee Committee International
AVE	Foreign Trade Association of the German Retail Trade
BDS	business development services
BMF	Bogra Medium Forum
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
CABS	Cluster Access to Business Services
CDA	Centro de Desarrollo de Agronegocios
CI	Conservation International
CMS	Commercial Market Strategies
DFID	United Kingdom Department for International Development
ECDI	Entrepreneurship and Career Development Institute
GATS	General Agreement on Trade in Services
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
IDE	International Development Enterprises
IFC	International Finance Corporation
ILO	International Labour Organization
IRFT	International Resources for Fairer Trade
IT	information technology
K-REP	Kenya Rural Enterprise Program
LED	local economic development

M4P	Making Markets Work for the Poor
MAPP	Method for Impact Assessment of Poverty Alleviation Projects
MART	Marketing and Research Team
MEDA	Mennonite Economic Development Associates
MKV	Mahindra Krishi Vihar
MPDF	Mekong Private Sector Development Facility
MPDPIP	Madhya Pradesh District Poverty Initiatives Project
NGO	non-government organization
NTFPs	non-timber forest products
NUDIPU	National Union of Disabled People of Uganda
PDI	previously disadvantaged individual
PRISM	Poverty Reduction through Irrigation and Smallholder Markets
PrOpCom	Promoting Pro-Poor Opportunities through Commodity and Service Markets
SEs	small enterprises
SECAP	Soil Erosion Control and Agro-forestry Project
SEMA	Small Enterprise Media in Africa
Sida	Swedish International Development Co-operation Agency
SMEs	small and medium enterprises
SMEDSEP	Small and Medium Enterprise Development for Sustainable Employment Program
SWOT	strengths, weaknesses, opportunities, and threats
TTO	Triple Trust Organization
ULT	Usambara Lishe Trust
UPMA	Uganda Private Midwives Association
USAID	United States Agency for International Development
WE	World Education





# 1. Introduction

Markets hold significant power to create or combat poverty. Increasingly, international development initiatives focused on economic growth and/or poverty alleviation are guiding markets toward working better for the poor. These initiatives are pushing for significant changes in the business-enabling environment to open markets for private-sector growth and small enterprise (SE) participation. They are enhancing the competitiveness of developing-country economies by linking small-scale producers with supply chains that sell to global markets. They are enabling small-scale producers to reap more rewards from global market participation by finding commercial solutions to the barriers that exclude small-scale producers from the benefits of higher value markets. And they are promoting program and policy shifts that help the poor improve health, sanitation, education, and other areas of their lives by supporting local market systems in which small enterprises play a critical delivery role. These poverty eradication initiatives fall under the broad banner of Making Markets Work for the Poor (M4P), the focus of the 2004–5 Reader. This document presents the M4P framework and shares practical lessons from a wide range of development experiences that illuminate workable paths to pro-poor market development.

Many development fields stimulate markets to work for the poor. These communities of practice, which overlap, have evolved from a growing focus on the power of markets to enhance not only small enterprise development but also agricultural development, local economic development, livelihood security, availability of and quality of employment, access to health care and education, and affordable consumer products. They call for systemic approaches to developing markets in ways that incorporate SEs and help eradicate poverty.

They include, but are not limited to, the following focal areas:

**Business Enabling Environment:** There is renewed interest among donors and researchers in improving the enabling environment for economic growth, with a focus on pro-poor growth. Initiatives in this area are focused on policies, regulations, and business practices that support the integration of developing economies into the global economy in ways that benefit and develop local economies and help reduce poverty. Opening markets is a key theme.

**Making Market Systems Work Better for the Poor, or Making Markets Work for the Poor (M4P):** The M4P approach is driven in part by the ambitious United Nations Millennium Development Goal of reducing extreme poverty by half by 2015. M4P seeks to “accelerate pro-poor growth by improving outcomes that matter to the poor in their roles as entrepreneurs, employees, or consumers of markets.”<sup>1</sup> It incorporates not only local markets but also national, regional, and global markets. Changes in policy, regulation, and business practices that affect the enabling environment are an integral part of the approach. The aim of these projects is to change the structure and characteristics of markets to increase participation by the poor on terms that benefit them.<sup>2</sup>

**Value Chain Development or Market Linkages:** Many agencies are focusing their private-sector development efforts on core product markets—for example, horticulture, commodities, plastics, or tourism. These initiatives seek to increase the global competitiveness of value chains in target regions and to integrate small enterprises into these viable markets in ways that benefit the poor.<sup>3</sup> Different agencies refer to these markets by different names, including “product markets,” “sub-sectors,” and

<sup>1</sup> DFID 2005.

<sup>2</sup> Ibid.; Ferrand et al. 2004; GTZ 2005; SIDA 2004.

<sup>3</sup> GTZ 2004b; <http://www.sdc-valuechains.ch/USAID> 2005; SDC 2004, 2005; Lusby and Panlibuton 2004; Panlibuton and Meyer 2004; Sebstad and Snodgrass 2004.

“value chains.”<sup>4</sup> Whatever their name, these core markets supply SEs with needed inputs and deliver their products and services to final customers.

**Market-Based Provision of Health Care, Education, Sanitation, and Other Public Goods:** Traditionally, health care, education, sanitation, electricity, and other basic services that contribute to poverty reduction have been considered public goods because of their related large-scale, shared investments and the benefits to society of everyone having access. At the same time, in most developing economies private-sector markets have emerged to make up for tremendous gaps in government ability to provide access for the vast majority, including the poor. Often, small enterprises are the main vehicle delivering private-sector health care, education, and sanitation to the poor. New initiatives are supporting these local markets to improve quality and increase access for more poor people.

These communities of practice have evolved from a range of development fields that are bringing together diverse theories and lessons to combat poverty. The 2004–5 Reader attempts to capture some of this recent thinking and to present practical examples and lessons in pro-poor market development. It also focuses on comprehensive approaches to stimulating and strengthening markets embodied in the M4P framework. Past private-sector and SE development initiatives have suffered from at least two types of limitations. On the one hand, “Remote Reformers” focus on broad policy change to open markets, assuming that markets will function well once obstacles are out of the way.<sup>5</sup> In practice, however, weak markets in developing countries have failed to respond quickly to opportunities, due to lack of capacity and weak linkages. On the other hand, “Impulsive Interveners” focus on quick results by working directly with firms to improve individual firm performance.<sup>6</sup> These approaches have resulted in small-scale, short-term changes that fail to make a significant dent in widespread, systemic poverty. The M4P approach challenges the “Impulsive Interveners” to take a longer-term, more systemic approach. It also challenges the “Remote Reformers” to, in addition to

**Key Question:**  
**What happened to BDS and the lessons learned from BDS Market Development?**

*The field of business development services (BDS) and BDS market development has been subsumed into these frameworks that focus on broader market development and poverty eradication. Each recognizes the importance of BDS and BDS market development, but these concepts are incorporated in different ways, using different terms. BDS market development terminology is fading in favor of vocabulary that explains how market development can help the poor benefit from economic growth. What was understood as BDS markets are increasingly called business service markets, commercially viable solutions, or support markets. But, as the terminology evolves, how are practitioners ensuring that the lessons learned about how to stimulate competitive markets, rather than distort markets and create dependency, are translated, applied, and continue to evolve?*

reforming the business enabling environment, proactively stimulate and strengthen weak markets where the poor are trapped and often left vulnerable to global competition and shocks.

This Reader presents the M4P approach in theory and practice, with a focus on three types of key markets in which significant activity has occurred in 2004–5:

**Value Chains That Do or Can Incorporate Small Enterprises:** the core markets that bring small-enterprise products to final consumers. Commonly targeted markets include production value chains such as horticulture, commodities, hand-made items, garments, and plastics. Recent

<sup>4</sup> DFID 2005; Ferrand et al. 2004; <http://www.actionforenterprise.org>; <http://www.sdc-valuechains.ch>; USAID 2005a.

<sup>5</sup> Ferrand et al. 2004.

<sup>6</sup> Ferrand et al, 2004

innovations include targeting services and retail value chains such as construction, tourism, information technology, and neighborhood grocery stalls.

**Value Chain Support Markets:** Service and product markets that help SEs participate in and benefit from value chains.<sup>7</sup> These include both fee-for-service markets, such as product design or quality improvement consulting, as well as services that are exchanged as a package (or embedded) with goods in the value chain—for example, design specifications and production tips from a buyer to a small-scale supplier.

**Local Health Care and Education Markets:** Markets in which SEs sell health care and education to the poor. These are two examples of how local markets are often working more effectively and efficiently than governments to get poverty-reducing goods and services to poor consumers.

## 1.1. Examples of Results from Mature Projects

Even as strategies to develop markets are renewed and evolve, some programs on the ground are showing promising results in terms of pro-poor market development. These programs build on existing systems and market mechanisms. They focus on creating changes in the incentives, rules, skills, access to assets, relationships, and other factors that govern markets so that they sustainably include and benefit the poor. The projects described in this section briefly illustrate promising approaches and results—most of which are profiled in more detail elsewhere in the document.

## 1.2. The 2005 Reader

This report provides a synthesis of evolving frameworks, reviews trends, and describes emerging lessons from programs around the world that engage in pro-poor market development. It also poses some key challenges to donors, practitioners, and researchers as they head in new directions.

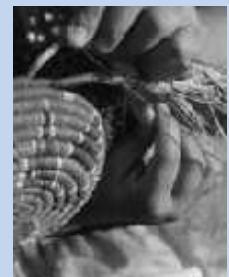
### Example 1: Progress in Making Markets Work for the Poor

#### Fintrac and USAID in Honduras



USAID and Fintrac launched the Centro de Desarrollo de Agronegocios (CDA) project in 2001 to jump-start agricultural markets that were devastated after Hurricane Mitch hit Honduras in 1998. The first phase focused on achieving immediate and significant results with direct get-it-right-the-first-time technical assistance and market linkages. The second phase focused on sustainability by transferring provision of technical assistance, inputs, and technology, needed on a recurring basis, to the private sector. CDA built the capacity of existing market players by demonstrating win-win relationships.

Over a brief three-year period, the project jump-started agricultural markets to the benefit of five thousand small-scale farmers and strengthened and expanded market systems. Income to farmers increased more than 100 percent in the first year and another 200 percent in the following year.



For more information, see <http://www.microlinks.org>.  
Source: Chalmers, Field, and Downing 2005.

<sup>7</sup> Sometimes referred to as “commercially viable solutions,” “business service markets,” and/or “embedded services,” formerly called “business development services.”

### International Development Enterprises Nepal

Since 1993 International Development Enterprises (IDE) Nepal has been helping remote rural farmers with minimal land to increase production from subsistence to commercial levels. Originally, IDE focused on commercial markets for agricultural inputs, in particular micro-irrigation. In a recent initiative funded by USAID, IDE developed and commercialized more comprehensive inputs packages appropriate for smaller-scale farmers and linked these farmers with buyers to help farmers grow and sell higher value vegetable crops. The complex market that IDE strengthened includes some 333 lead farmers, 91 agro-vets, 163 vegetable traders, 224 irrigation installers, 25 water pump dealers, and 2 pump manufacturers, all of whom are SEs. In the most recent project year, new target farmers earned an average of only \$39 from vegetable farming before the project and increased their earnings to \$323, on average, after only one year of using project-promoted services, a sevenfold increase.



For more information, see <http://www.ideorg.org> or <http://www.bdsknowledge.org> (search by IDE and Nepal).  
Sources: Bista 2004a, 2004b.

### ILO Small Enterprise Media in Africa (SEMA) in Uganda



The ILO SEMA support of commercial small business radio programming in Africa, funded by the Swedish International Development Co-operation Agency (Sida), has empowered the poor to advocate for their own business interests. Nationally, 75 percent of radio listeners—the vast majority of whom are in the bottom two-thirds of Uganda's income strata—tune in regularly to small business radio, which was launched as a concept by FIT in 1999. Listenership among the poorest strata was 65 percent and is the same for men and women. The shows provide valuable information, market linkages, and advocacy services. The majority of listeners report that the shows are highly or quite beneficial to their businesses, with one-third reporting that they have expanded their business as a result of putting into practice what they learned on the radio.

For more information, see <http://www.bdsknowledge.org> (search by FIT SEMA).  
Source: ILO 2004.



### Practical Action in Peru

With funding from a range of sources, Practical Action (formerly Intermediate Technology Development Group, ITDG) has worked since 1997 in remote areas of the Andes in Peru to develop the market for agricultural and livestock extension services that reach the rural poor. Practical Action has revived an ancient tradition of the *Kamayoq* (the technical advisors on weather and agriculture in the Incan Empire), worked with them to identify appropriate extension products and services, and built technical capacity of these community-based consultants. The Kamayoq earn a living selling inputs, such as veterinary products and providing technical advice, which farmers pay for in cash and kind. To date the center has trained 140 Kamayoq, who have served three thousand farming families. Evidence of positive impact on the farming community is illustrated by these reported results from dairy farmers:

- 98 percent of cow owners dosing for parasites; 80 percent of cow owners reporting that mastitis is now under control; average daily milk production increased from six to nine liters per day
- Monthly milk sales increased by 39 percent
- An estimated average increase in income among participating farmers of 15 percent
- The Kamayoqs themselves are earning between eighty-eight and two hundred dollars a month from providing services.

Practical Action has shared this cost-effective model of providing services with other agencies, including the Peruvian government, so that large numbers of remote resource poor farmers can benefit. Funders include CAFOD, Castilla de la Mancha, INCAGRO, Clothworkers Foundation, and the Japanese Embassy.

For more information contact Alison Griffith, Practical Action, at [alison.griffith@practicalaction.org.uk](mailto:alison.griffith@practicalaction.org.uk) or Daniel Rodriguez, Practical Action, at [danielr@itdg.org.pe](mailto:danielr@itdg.org.pe), or see <http://www.practicalaction.org>.  
Sources: Griffith and Rodriguez 2005; Practice Action 2005.



### USAID Kenya BDS

The USAID Kenya BDS program, implemented by the Emerging Markets Group, is linking small-scale farmers with horticultural markets purchasing mango, passion fruit, and avocado. The program strengthens input and support markets to improve quality, links farmers to exporters, and helps exporters develop improved out-grower relationships. Three years in, the program has helped link more than 6,500 farmers to markets and thousands more to commercial business services through a network of more than five hundred providers.

For more information, see <http://www.kenyabds.com> or <http://www.bdsknowledge.org> (search by Kenya BDS).  
Sources: Emerging Markets Group 2004b–d, 2005b–d.



### ***1.2.1. Global Trends and the Making Markets Work for the Poor (M4P) Approach***

Chapter 2 begins with a description of the M4P framework, including how value chain development and efforts to strengthen the business-enabling environment and other communities of practice relate to this broad initiative. It describes how the M4P framework addresses significant trends influencing pro-poor growth opportunities, including globalization, the enabling environment, and how lack of power in markets affects the poor.

### ***1.2.2. Lessons in Program Design and Implementation***

Chapter 3 presents lessons from practical experience related to M4P. It describes tools practitioners are using to assess markets and how market assessment is contributing to program design and implementation. The major focus is on value chain development—how programs are shifting power relationships in value chains to the benefit of SEs, and the “who” and “how” of strengthening market linkages. The chapter also examines several programs addressing the challenge of more significant outreach and sustainability by developing commercial support markets that strengthen value chains and help SEs benefit from participating in value chains. As well, recent trends and challenges in program evaluation are described. Finally, the chapter takes a look at how development organizations are making the transition to market development strategies.

Chapter 4 presents strategies for incorporating the poorest and most vulnerable groups into markets, on terms that benefit them. This section focuses on strategies and groups where the most significant progress and innovations have occurred in the last year. Because poverty is concentrated in rural areas, many initiatives are focusing on reaching the rural poor and therefore on agricultural market development.

In addition, some agencies have given more attention this year to market development in postdisaster settings, learning from and hoping to contribute to relief and development in tsunami-affected areas. Markets disrupted by conflict are a related but different challenge. There are also many agencies that continue to focus attention on the entrenched poor, including very low-income women and HIV/AIDS affected areas.

### ***1.2.3. Developing Health Care, Water, Sanitation and Education Markets that Serve the Poor***

Chapter 5 presents innovative new strategies for reducing poverty by increasing access to health care, water, sanitation and education. The cases profiled illustrate how the lessons of other market development work are being applied to helping the poor, as consumers access health care and education. In addition, they illustrate the critical role of SEs in local markets that improve health and education to the poor. The lessons here are also applicable to other areas of development, such as infrastructure.

### ***1.2.4. Challenge to the Field***

In the final chapter, the authors pose a challenge to M4P proponents and other development practitioners concerned with market development: How will past lessons learned be translated into this new approach? How will new lessons be learned and shared? How can the M4P approach be communicated? And how can capacity be built around making markets work for the poor so that the actions live up to the name?

## 2. Global Trends and the Making Markets Work for the Poor Approach

The M4P framework is emerging in response to two global trends: Increasing penetration of the global economy and the UN Millennium Goal to cut extreme poverty in half by 2015. The M4P framework recognizes that markets are a powerful tool for combating poverty, and that market systems exist and are struggling to work even in the poorest, most challenging environments. The framework proposes that helping the poor to integrate into viable global and local markets on beneficial terms is the best response for poor people currently missing out on the benefits of globalization or those threatened by globalization. The M4P framework recognizes the importance of the enabling environment and of market systems on the ground. By taking a comprehensive approach to gently but proactively stimulating markets in ways that benefit the poor, the framework addresses the broad enabling environment, policies, and regulations related to specific markets, support markets and infrastructure, and market relationships and structures that provide the poor with more influence, autonomy, and market choice.<sup>1</sup>

### 2.1. Making Markets Work for the Poor: The Approach

The M4P approach is a development objective and a broad approach to poverty eradication based on the premise that well-functioning markets can help reduce poverty by delivering affordable products and services to poor people, offering poor people better return on their assets and labor, and presenting poor people with better employment opportunities. The M4P approach recognizes that these market benefits are often unavailable to the

poor despite increasingly open global markets. M4P proponents propose that the poor will benefit more from markets if (1) markets are allowed to function in a truly open and competitive manner that provides opportunities for the poor (in most markets, this means reform of policies, political systems, cultural norms, and civil society, from the global to the local level), and (2) development agents invest in strengthening competitive market systems, rather than achieving short-term, small-scale results with limited target groups.

The M4P approach is not a development field. Rather, it is a cross-sector philosophy, relevant to a range of fields, from small enterprise development to health, from fair labor to consumer protection. Its proponents hope that the M4P strategy will stimulate markets to unleash the entrepreneurial energy and consumer power of the poor and make significant progress in reaching the Millennium Development Goal of halving extreme poverty by 2015.<sup>2</sup>

To make markets work for the poor, practitioners influence the market in three key dimensions: the core market, institutions, and services and infrastructure (as illustrated in figure 1 below).<sup>3</sup> Core markets link producers and consumers. A core market might be the process and exchange that take poor producers' goods and services to final markets—in other words, a subsector or value chain within a subsector. Or, a core market might be the process and exchange that brings consumer goods to poor people—locally, regionally, or globally. The services and infrastructure dimension refers to markets and public goods that help strengthen the core market and help the poor participate in and

<sup>1</sup> ADB 2004b; DFID 2005a; Ferrand et al. 2004; Hellin et al. 2005; Lindahl 2005.

<sup>2</sup> ADB 2004b; DFID 2005a; Ferrand et al. 2004; Hellin et al. 2005; Lindahl 2005.

<sup>3</sup> Ferrand et al. 2004.

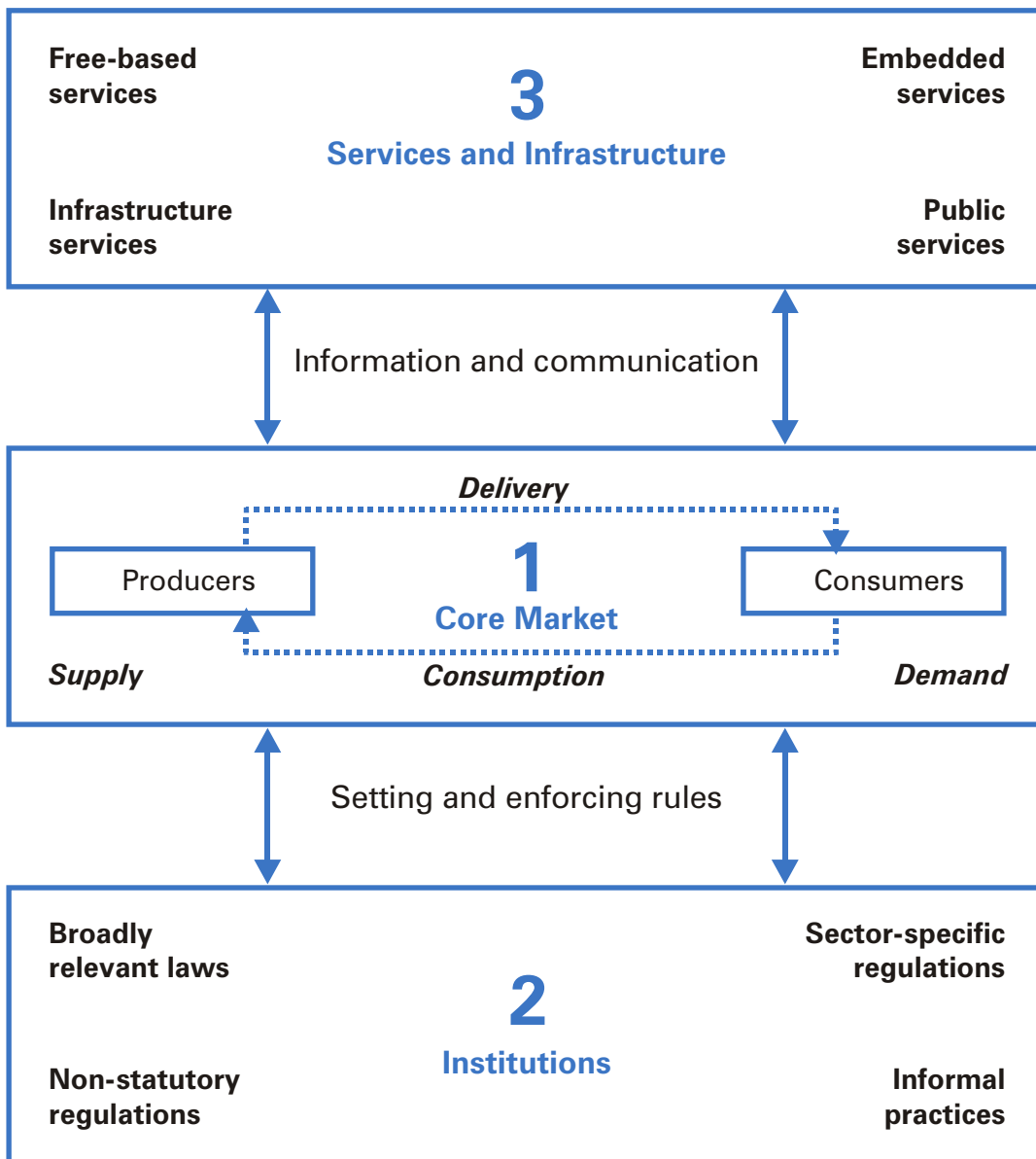


benefit from the core market. For example, there may be a market for technical advice to producers to help them become certified organic producers, and the government may invest in road improvement to ensure that area farmers are able to get their produce to market quickly and with minimal damage. Here we will refer to markets in this arena as “support markets.” The institutional dimension, which influences both the core market and its support markets, refers to the formal and informal rules that govern markets—the laws and regulations

and how they are implemented; in other words, the enabling environment for that market. An M4P approach involves addressing the whole system, examining and ensuring that all three dimensions are working to help the poor participate in and benefit from the core market.

The M4P approach is but one of many development frameworks in use in 2005 concerned with poverty eradication and economic growth. Because it is an approach, rather than a field of practice, other

**Figure 1: Key Market Dimensions**

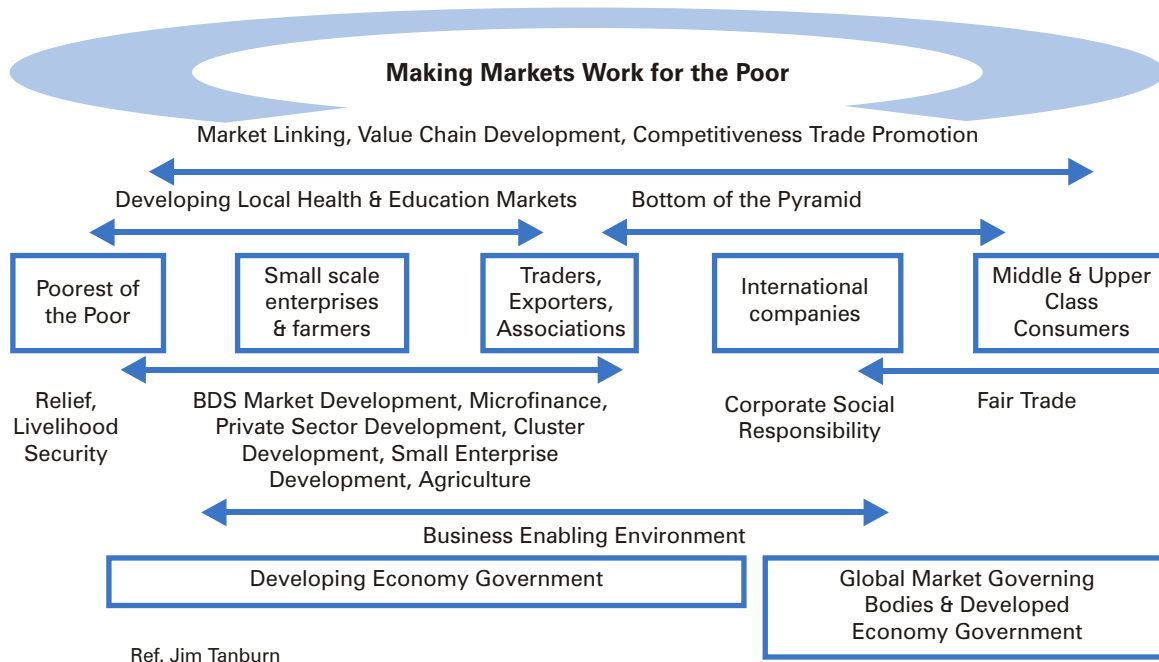


Source: Ferrand et al. 2004

development fields can be placed within the M4P approach, as illustrated in figure 2 below. The figure depicts a range of private-sector development and poverty eradication fields that could apply the M4P approach, and which part of a core market they

generally focus on. The figure places these fields within the context of the M4P framework. The remainder of this chapter describes how the M4P approach addresses several critical challenges facing the poor in 2005.

**Figure 2: M4P in Relation to Other Development Fields**



## Example 2: M4P in Practice

### ComMark Trust, Southern Africa

The ComMark Trust, managed by ECIAfrica, was established with DFID funding to make commodity and service markets work better for the poor. One ComMark Trust initiative directly benefits small-scale farmers by improving their access to animal health products, encouraging better yields, and offering higher prices, which the predominant government-run wool-shearing and marketing sheds have not been able to provide. The wool market presents opportunities due to buoyant international prices and declining supply. The ComMark Trust strategy is to strengthen Lesotho private-sector, licensed wool traders to overcome information, business service, and access barriers that inhibit their profitable operation and growth. By building the capacity of the traders in marketing, extension, and management, the wool sheds they own and operate can become a model for the industry, to the benefit of even more small-scale farmers. As part of this effort, ComMark has extended a grant to TEBA Development to develop a transparent and credible marketing system using local private traders including other business development service providers, such as input suppliers and extension agents, who will increasingly charge farmers market-related rates for their services. The grant calls for strengthening the core wool market by establishing market linkages and enhancing these with business services, delivered through commercial markets. At the same time, ComMark is providing support to the government of Lesotho's wool industry privatization program.

For more information, see <http://www.commark.org>.  
Source: ComMark 2005.

## 2.2. Globalization and Competitiveness

The pace of globalization and the integration of local markets with global markets are key factors driving the M4P approach and, in particular, efforts to productively link the poor with private-sector and small-enterprise development.<sup>4</sup> While the majority of small enterprises still operate only in local markets, international products and retailers are penetrating local

markets, forcing local producers and retailers to compete with them.<sup>5</sup> For some time, private-sector development programs have been working to improve the competitive position of target businesses, value chains, regions, and countries to help them survive and thrive in the global marketplace. In 2005, these efforts are reaching ever down market to boost the competitiveness of local communities, smaller enterprises, and small-scale farmers in order to reach the poor.

### Example 3 Increasing the Competitiveness of Microenterprises

#### Triple Trust Organization, South Africa

In Cape Town, South Africa, Triple Trust Organization (TTO) is implementing a project, funded by USAID and Misereor to increase the competitiveness of spaza shops—tiny, home-based retail grocery stores in poor, urban townships. Both owners and customers of spaza shops are poor. TTO aims to increase the incomes of spaza owners and, at the same time, enable them to deliver more value to their customers.

A more competitive spaza market can generate significant development benefits in terms of more capital circulating within the townships, more support to black-owned businesses, and wider choice and more competitive prices for low-income consumers.



TTO is assisting spaza owners in forming a network called Shop-Net, which strengthens spaza shops' position in the grocery supply chain. Shop-Net provides three basic benefits to spaza owners: (1) membership in a voluntary buying group to purchase stock collectively and secure discounts with local wholesalers, (2) access to business support services—costing, pricing, store management, and customer relations, and (3) access to linkages with suppliers—manufacturers, wholesalers, and other trading partners. At the same time, TTO is strengthening the links between spaza owners and product manufacturers and wholesalers who are interested in penetrating the township market.

For more information, contact Donovan Pedro, TTO, at [donovan@tto.org.za](mailto:donovan@tto.org.za) or see <http://www.tto.org.za> and <http://www.bdsknowledge.org> (search by TTO and South Africa). Sources: Bear 2005; TTO 2005.

<sup>4</sup> Best, Ferris, and Schiavone 2005; DAI 2005; Lindahl 2005; OECD 2004.

<sup>5</sup> Ulrich 2004.

## Example 4: Differentiating Small Farmers' Products

### GTZ, Tanzania

In the Tanga region of North East Tanzania, the Soil Erosion Control and Agro-Forestry Project (SECAP), supported by GTZ and implemented from 1981 to 2000, aimed to increase small farmers' incomes and improve environmental management. Farm sizes in the area range from 0.5 to 2.5 hectares. Traditional staple crops are maize, beans, and bananas; coffee and tea were introduced in the colonial era, and missionaries brought the first vegetable seeds. SECAP initially focused on promoting integrated, holistic soil and water conservation approaches in selected watersheds using participatory forest management for village and local authority forest reserves.

In 1993–94 consultants carried out a marketing survey in major urban centers and identified the potential for vegetables and fruits. Supported by the SECAP project, one hundred farmers in four village societies initiated production of nine types of vegetables, and in 1996 a first delivery of 300 kg was made to the Sheraton Hotel, Jangwami Sea Breeze and Masudi grocery in Dar es Salaam. At the termination of the SECAP project in 2000, sixty farmers, of which sixteen were women, established the Usambara Lishe Trust (ULT) as an NGO. Today, ULT produces more than one hundred different vegetables and fruits and has established a reputation for producing high quality vegetables. ULT markets five to six tons of fruits and vegetables every week to sixteen specialty market outlets in Dar es Salaam.

For more information, contact Alison Griffith, Practical Action: [alison.griffith@practicalaction.org.uk](mailto:alison.griffith@practicalaction.org.uk)  
Source: Best, Ferris, and Schiavone 2005.

Some of the ways in which small enterprises, sometimes with the help of development projects, are trying to compete in the global marketplace are the following:

- Cooperating to interact in markets as groups rather than as individual enterprises<sup>6</sup>
- Participating in clusters and networks of firms that share knowledge, promote upgrading, and enable specialization and flexibility in production and marketing<sup>7</sup>Differentiating their products from mass-produced items<sup>8</sup>
- Taking advantage of large companies' desire to develop lower-cost, flexible, and market-responsive supply chains by selling to large firms<sup>9</sup>
- Taking advantage of large firms' interest in selling to developing-country markets by playing a role in local distribution and retail<sup>10</sup>

<sup>6</sup> Best, Ferris, and Schiavone 2005; Bradnum 2005.

<sup>7</sup> Ulrich 2004; OECD 2004.

<sup>8</sup> Best, Ferris, and Schiavone 2005; ComMark Trust 2005; Manaktala 2005.

<sup>9</sup> Finkel n.d.; Prahalad 2005.

<sup>10</sup> Ibid.

## Example 5: Analyzing Country Competitiveness

### The World Bank and IFC Mekong Private Sector Development Facility, Cambodia

The World Bank–funded IFC Mekong Private Sector Development Facility (MPDF) is a multidonor-funded initiative with the mandate to support and accelerate the development of productive, locally owned, private-sector small- and medium-sized enterprises in Vietnam, Cambodia, and Lao PDR. The government of Cambodia has identified growth of the private sector as critical for developing the economy in order to alleviate the country's high levels of poverty. As part of the project's aim to improve the business environment in Cambodia, the World Bank reviewed the competitiveness of Cambodia's private sector. Using a value-chain analysis approach, the study identified a number of potential growth sectors, including cotton, motorcycle assembly and spare parts production, canned milk, and rice farming. However, the study identified a number of barriers constraining competitiveness in these and other sectors, including high costs for customs clearance, red tape and bribery, smuggling, and high energy costs. The study noted that the Cambodian government is taking positive steps to address some of the key impediments and concludes that the private sector should also take concrete steps to improve competitiveness. The MPDF published this information in its Business Issues Bulletin and used it to raise awareness about constraints and to advocate for policy change.

For more information, see <http://www.mpdf.org>.  
Source: IFC MPDF 2004.

Many programs are now including an analysis of global markets and the competitiveness of particular countries, value chains, or groups of enterprises within their preprogram market research.<sup>11</sup> Small-enterprise development experts and practitioners are increasingly applying concepts from the competitiveness field, which has traditionally been focused on medium and large formal enterprises, to program targeting small and even microenterprises.<sup>12</sup> To differentiate small-enterprise products, programs are capitalizing on SE's tendency to be labor intensive. For example, several programs are positioning small tourism enterprises as being more customer responsive and delivering a more tailored experience to tourists than large tourism companies.<sup>13</sup> Some programs are building capacity and links within enterprise clusters or networks to help SEs continuously upgrade their skills, products, and or production processes.<sup>14</sup>

Part of globalization has been the increasing outsourcing of functions from developed to developing countries. Some projects are taking advantage of this trend to promote the growth of small enterprises in industries where outsourcing is prominent, such as information technology.<sup>15</sup> This trend illustrates how changes in competitiveness relate not only to the core market in which a program is helping firms to compete, but also to labor markets in which low-cost labor is attracting jobs from higher-paid workers. It raises issues around the extent to which such programs should also be addressing labor conditions and standards in the target region.

<sup>11</sup> Descriptions and information on some tools for analyzing competitiveness can be found at <http://www.bdsknowledge.org>. Click on "Market Assessment," then "Market Assessment Methodologies—Tools and Information."

<sup>12</sup> Best, Ferris, and Schiavone 2005; Ulrich 2004; DAI AMAP 2003.

<sup>13</sup> Conservation International 2005b, 2005c.

<sup>14</sup> Idrovo and Boquiren 2004; Mercy Corps 2005a.

<sup>15</sup> Boquiren 2004.

## Example 6: Targeting a Sector with Outsourcing Opportunities

### GTZ and GFA, the Philippines

The Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP), funded by BMZ and implemented by GTZ and GFA, uses an integrated approach to the development of the private sector in the Philippines with a regional focus on the Visayas. SMEDSEP focuses on addressing four major constraints to SME development: (1) the lack of a conducive enabling environment for business at national and local levels, (2) the lack of appropriate business services, (3) the lack of market-driven technical and vocational skills training, and (4) the financial sector's inadequate financing for SMEs.

SME stakeholders in Cebu province selected information technology (IT) as the pilot sector for project focus because it seems to offer the greatest potential for income and employment generation. GFA, consequently, contracted a consultant to analyze this subsector. The study showed that one key subsector within IT focuses on outsourced, IT-enabled services such as call centers, payroll processing, and medical transcription. The number of call centers in Cebu has grown from zero in September 2003 to nine as of June 2004. Within this subsector, the study found that key constraints to growth include the lack of export market information and contacts and the shortage of English-proficient workers. Subsector stakeholders recommended addressing these constraints by promoting outsourcing opportunities, reviewing the school curriculum, and strengthening training.

For more information, contact Rita Pilarca, GFA, at [rp.smedsep@mozcom.com](mailto:rp.smedsep@mozcom.com) or see <http://www.smedsep.ph> and <http://www.bdsknowledge.org> (search by GFA and Philippines).  
Source: Boquiren 2004.

**Key Question:**  
**Should donors and practitioners promote good labor standards in SEs they target?  
If so, how?**

*The increase of programs that capitalize on the export of business functions from developed to developing countries has raised questions about the influence of these programs on international labor markets. Do these programs promote win/win relationships between international companies and enterprises in developing countries? Or, do they promote price competition for labor among developing countries, weakening, rather than promoting, labor standards?*

*Some agencies, most notably the ILO, have programs to directly promote labor standards in small enterprises. Others are encouraging large companies to require or prefer suppliers with good labor standards and are trying to show how this is a win/win proposition for both trading partners. These agencies are often simultaneously promoting markets for social standards certification services. But some practitioners argue that these efforts only serve to exclude small enterprises from international value chains. They believe that increasing profits and incomes must come first, before efforts to improve labor standards in small enterprises.*



## 2.3. The Enabling Environment

A key response to increased globalization and its failure, to date, to eliminate poverty is a growing focus on improving the business-enabling environment in developing countries.<sup>16</sup> Both research and programs have underscored the importance of a conducive enabling environment to private-sector growth and small-enterprise development.<sup>17</sup> The enabling environment is a critical dimension in the M4P approach. It is seen as a determining factor in whether core markets and infrastructure and support markets serve and benefit the poor.

The “Doing Business” database developed by the World Bank has provided donors and practitioners with objective measures of business regulations and their enforcement. The Doing Business indicators are comparable across 145 economies. They indicate the regulatory costs of business and can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.<sup>18</sup> This database has provided a way to benchmark countries on their business environments, and it is arguably creating peer pressure amongst countries to improve their business regulatory environments. Donors and practitioners are using the database information to push for improvements in the business environment in countries where they work.

In the face of the growing integration of global markets, a number of factors in the enabling environment play a critical role in promoting or preventing small enterprises from integrating into markets. Some broad factors include the regulatory environment, transaction costs, barriers to firm entry and exit, and the enterprise formalization process.<sup>19</sup> At the same time, policies, regulations, and practices of specific markets play a critical role in the functioning of those markets and the ability of SEs to participate in and benefit from them. For example, many SEs are blocked from market participation by regulations that are designed for large-scale firms; others are left with extremely low profits due to corruption, local monopolies, and high taxes. Appropriate sector reforms are often discovered in the context of specific market development initiatives, rather than in isolated, general policy change efforts.<sup>20</sup> It is beyond the scope of this Reader to describe the growing body of research and programs aimed at improving the enabling environment for private-sector growth and small-enterprise development.<sup>21</sup> However, two issues of concern to practitioners are worth noting here.

<sup>16</sup> The Committee of Donor Agencies for Small Enterprise Development is organizing a conference, “Reforming the Business Environment—From Assessing Problems to Measuring Results,” in Cairo from 29 November to 1 December 2005. Information on the conference is available at <http://www.sedonors.org> and <http://www.businessenvironment.org>.

<sup>17</sup> Commission for Africa 2005; DFID 2005a; Ulrich 2004; Lindahl 2005; OECD 2004; White and Chacaltana 2002.

<sup>18</sup> The Doing Business database is available at <http://www.doingbusiness.org>

<sup>19</sup> Commission for Africa 2005; White and Chacaltana 2002.

<sup>20</sup> ComMark Trust 2005; DFID 2005b.

<sup>21</sup> There is a new information sharing website on the business environment at <http://www.businessenvironment.org>. For more references on information available on the Internet about the business environment, see the appendix.

## Example 7: Addressing the Enabling Environment for Private-Sector Growth and SE Development

### SBP, South Africa

SBP is an independent private-sector development and research organization that promotes strategic partnerships and a better regulatory environment for business growth in Africa. It combines research, advocacy, and practical business development programs with interlinked objectives—promoting a policy, regulatory, and operating environment conducive to private-sector growth. SBP’s policy work involves ongoing regional and in-country research and related activities to support regulatory best practice and evidence-based advocacy for a more enabling environment for business. SBP’s focus includes addressing the enabling environment for small and medium enterprises. One of SBP’s recent research projects, “Counting the Cost of Red Tape to Business in South Africa,” funded by DFID, estimated that regulatory compliance cost South African businesses R79 billion in 2004, an amount equivalent to 6.5 percent of the country’s GDP. The study noted that while big firms have the largest absolute costs, small firms bear the heaviest burden of regulatory compliance costs in relation to their size. The study recommended the creation of Regulatory Impact Analysis capacity in government to advise on the costs and benefits of new regulations and a systematic review of the costs and benefits of existing regulation.

For more information, contact Chris Darroll, SBP, at [chris@sbp.org.za](mailto:chris@sbp.org.za) or see <http://www.sbp.org.za> or <http://www.businessenvironment.org>.

Sources: SBP 2005; <http://www.sbp.org.za>.

### 2.3.1. Influencing the Business Enabling Environment: A High Stakes Gamble?

Many donors recognize the importance of the enabling environment and are also attracted by the potential for impacting the private sector and small enterprises on a very large scale with improvements in the enabling environment that affect entire countries. Strategies to improve the enabling environment include policy studies, building the capacity of private-sector associations and coalitions to advocate for their interests, and developing the capacity of government agencies to analyze and revise their own regulations and practices. However, improving the enabling environment is a complex, long, and uncertain process.

While donor-supported programs can identify and promote good practices, changes often ultimately depend on the politics of a given country. Significant changes may not be realized in the typical lifespan of development projects. Practitioners on the ground also recognize that changes in the enabling environment are often not sufficient to promote the changes in business relationships, interfirm cooperation, informal business practices, skills, and support markets necessary to sustainably integrate poor people and small enterprises into markets on terms which benefit them. As a result, many programs are working on both integrating poor people and/or small enterprises into markets through direct market-based interventions and improving the enabling environment.<sup>22</sup>

<sup>22</sup> For example, ComMark in South Africa, KATALYST in Bangladesh, PrOp Com in Nigeria and the GTZ SME Development for Sustainable Employment Program in the Philippines.



## Example 8: Addressing Poverty through the Enabling Environment and Direct Market-Based Interventions

### PrOpCom, Nigeria

Promoting Pro-Poor Opportunities through Commodity and Service Markets (PrOpCom), funded by DFID, is focusing on multiple aspects of pro-poor growth in Nigeria. PrOpCom's objectives are the following:

- Improve livelihood and employment opportunities for the rural poor, especially women
- Seek opportunities to facilitate systemic changes in service and commodity markets to favor pro-poor outcomes and accelerate growth in agriculture and related sectors
- Support business development services and functioning input, service, and commodity markets
- Build stakeholder coalitions to shape systemic change, influence policy decisions, and facilitate investment
- Provide an enabling environment for greater private investment in agriculture and related sectors
- Promote sustainable development, integrating poverty reduction with gender, social, environmental, and health issues

PrOpCom designers believe that this integrated approach will result in multiple benefits for the rural poor as producers, workers, and consumers.

For more information contact Greg Kruse, PrOpCom, at [gkruse@chemonics.com](mailto:gkruse@chemonics.com).  
Source: DFID 2005b.

### 2.3.2. The Policy Change Process

Given the challenges of improving the enabling environment, some programs aim to put in place mechanisms to initiate and sustain the policy change process, rather than, or in addition to, aiming to directly affect policies during the life of the program. For example, programs may partner with policy think tanks or business associations to conduct policy studies in order to build the capacity of these organizations to analyze policies in the long run or raise the awareness of key local stakeholders about the importance of policy reform.<sup>23</sup>

One area of innovation in putting in place change mechanisms, particularly to affect the enabling environment for small enterprises, relies on developing media markets.<sup>24</sup> Some of this work started with successes in developing media as a cross-sector support market for small-enterprise development. Practitioners in these programs found

that media can provide small enterprises with a voice to air their grievances and concerns about government regulations, practices, and policies. This channel for airing SE issues often gets the attention of government officials in a way that other channels have failed to do. Impact studies show that radio shows for small enterprises have resulted in concrete improvements in government regulations and practices that benefit some of the smallest enterprises.<sup>25</sup> However, developing media markets requires a government that allows competition among private media companies in a fairly liberalized market and also allows, or even encourages, some degree of freedom of speech. This issue suggests that strategies to liberalize the enabling environment broadly and to put in place mechanisms for continuing the policy reform process in the long run may be mutually reinforcing. The media work also illustrates how developing specific markets and improving the enabling environment are often linked.

<sup>23</sup> Binh 2005.

<sup>24</sup> For example, by the ILO in Africa and Asia and KATALYST in Bangladesh.

<sup>25</sup> ILO 2004.

## Example 9: Building Systems and Advocacy Platforms for SEs

### ILO FIT Small Enterprise Media in Africa (SEMA), Uganda

The ILO SEMA support of commercial small business radio programming in Africa, funded by the Swedish International Development Co-operation Agency (Sida), has empowered the poor to advocate for their own business interests. Nationally, 75 percent of radio listeners—the vast majority in the bottom two-thirds of Uganda’s income strata—tune in regularly to small business radio, which was launched as a concept by FIT in 1999. As one listener put it, “In the days of the Internet, it is good that we villagers are not left behind.” One critical role of interactive SE radio is to provide a voice for SE listeners and a public platform for them to engage policy makers, government agencies, and powerful private interests to hold them more accountable to the public. Around one-third of listeners list advocacy as the primary role for the stations, while others highlight the programs’ education and market linkage functions. Issues that SE radio programs have helped resolve include national policy toward milk distribution by SEs, negotiating on-time payments for coffee growers, exposing unfair elections in urban market associations, and resolving conflict between livestock traders and a local abattoir.

For more information, see <http://www.bdsknowledge.org> (search by FIT SEMA).

Source: ILO 2004.

## 2.4. Who Controls the Market?

Another critical theme emerging from value chain and M4P work is attention to power and influence, or “governance,” of markets and a recognition that making markets work better for the poor often involves shifting market power in favor of the poor. Even within well-regulated markets, some players have more influence and power over value chains than others—usually larger firms over smaller ones. In today’s global markets, large buyers in the North are becoming increasingly influential in the North and South as markets are concentrated into ever fewer, large-scale retailers. Large-buyer requirements, in response to consumer demand, for product certifications and standards effectively block most small-scale producers from selling to them. In poorly regulated markets of developing countries, these power imbalances are exacerbated at the local level by a poor business environment for SEs, and by cultural, gender, and class divisions within markets. As a result, SEs and the poor are often shut out of global markets. Meanwhile, global businesses are penetrating local markets in developing countries and threatening SE access to them as well.

Development initiatives are tackling the challenge of market governance by understanding and addressing governance of specific markets. Traditionally, development agencies addressed market imbalances by helping small-scale producers form associations to go around “exploitative” middlemen to gain a higher share of the market price, with mixed results. Recently, M4P-related initiatives have been using value chain analysis to gain a more nuanced understanding of how global trends affect target value chains and how specific value chains are governed globally and locally. Armed with this understanding, two strategies are in play, sometimes in compliment to each other and sometimes in conflict.

First, some stakeholders in making markets work for the poor are advocating toward government and large firms to change practices that affect the market structure, to make it more balanced in favor of small-scale producers and retailers. Example policies at work include the following:

- Government mandates to large firms that do business with the government to source from small-scale suppliers<sup>26</sup>

<sup>26</sup> Sethna 2004a.

## Example 10: Addressing Global and Local Market Imbalance

### Global Supermarkets and Small-Scale Farmers

In the fresh vegetables sector, global supermarket giants are gaining increasing influence in the marketplace. Supermarket chains are becoming concentrated in Europe and are now penetrating urban markets in developing countries as well. In response to consumer demand, large-scale grocery retailers use traceability standards and certifications around the use of agrochemicals, standards that are hard for small-scale producers to meet and document. This trend increases the power of larger, formal sector wholesalers relative to informal intermediaries, because the large wholesalers can often provide technical services in attaining certification as part of supply contracts. This system has been affecting farmers around the globe seeking to reach high value, export markets. At the same time, the increasing penetration of global supermarkets into urban markets in developing countries has brought the specter of monopolistic markets closer to home to poor small-scale producers in developing countries.

Advocacy work has been taking place on a global and national level, aimed at the supermarket chains, Northern governments, the WTO, and developing country governments. Farmer associations in the North and South are pressing for more regulation of the large supermarket chains to improve or maintain competition in food retailing so that they have a more diverse set of buyers to sell to on more beneficial terms. Producers are also advocating for instituting and enforcing codes of practice that govern the terms between large supermarkets and their suppliers. Governments in the North and the WTO under the General Agreement on Trade in Services (GATS), in part in response to industry lobbying, are supporting industry self-regulation, which producers say is not effective so far in protecting their interests. In response to supermarket giants opening up in developing countries, some governments in the South are instituting protectionist legislation, mainly aimed at protecting existing local monopolies; others are responding with protectionist regulations to address farmers' and small-scale retailers' concerns. These regulations are likely to be short-lived, however, in the face of increasing globalization and pressure to open markets. These strategies emerge in an adversarial and confrontational atmosphere.

Another longer-term, less confrontational strategy is under way in several countries, including Thailand, for example. The Thai government is facilitating a dialogue between consumer, retailer, and farmer associations and stockowners, on the one hand, and large supermarket chains, on the other, to find ways to develop win-win relationships between supermarkets and suppliers. For example, supermarkets, together with other stakeholders, might build the capacity of local farmers to efficiently and profitably meet their requirements. In an example of this on the retail end of the market, Triple Trust Organization, in South Africa, is initiating win-win relationships between manufacturers and wholesalers and small-scale informal grocery shops. Such strategies require building trust among industry stakeholders rather than initiating confrontation.

For more information, see <http://www.regoverningmarkets.org> and <http://www.tto.org.za> or [www.bdsknowledge.org](http://www.bdsknowledge.org) (search by TTO). Sources: Bradnum 2005; <http://www.regoverningmarkets.org>.

- Regulation of monopolies and a crackdown on specific monopolies affecting SEs
- Establishing government programs that facilitate win-win relationships among large businesses and SE suppliers or retailers<sup>27</sup>
- Facilitating the development and enforcement of industry-specific codes of practices for large-scale businesses doing business with SEs; requiring retailers doing business domestically to adhere to these standards
- Temporary market protection from global corporations that compete with local SEs
- Coalitions of stakeholders, including investors and representatives of affected SEs, also attempt to advocate to large-scale buyers and retailers for better practices toward SEs.

Second, many programs focus on local market imbalances by strengthening the market position of SE producers vis-à-vis local wholesalers, traders, and large-firm buyers.

Some programs focus on helping SEs meet end-market demand in terms of product specification and quality, and they help small-scale producers attain appropriate standards and certifications.<sup>28</sup> Others help develop win-win market relationships by facilitating value chain associations or clusters that promote collaboration among value chain businesses to increase the competitiveness of the entire value chain. Others break down local monopolies and stimulate competition among buyers of SEs products. These types of market-strengthening activities help position SEs and local value chains to respond to improvements in the broad enabling environment. They form an essential complement to broad initiatives to change the business-enabling environment. Market-development initiatives such as these are the focus of the next chapter on lessons in M4P program design and implementation.

<sup>27</sup> Bradnum 2005; Sethna 2005a.

<sup>28</sup> Finkel 2005; Walker 2005.

## 3. Emerging Lessons in Program Design and Implementation

This chapter shares lessons from programs focused on pro-poor market development, although the programs may use different vocabulary to describe their work. It focuses on a range of key challenges donors and practitioners are facing. What tools are being used to assess markets and how is market assessment contributing to program design and implementation? When developing value chains, how are programs working to shift power relationships to the benefit of SEs? As they strengthen market linkages, who are programs working with and how? How are programs addressing the challenge of more significant outreach and sustainability? What progress is being made in developing systems and tools for program monitoring and evaluation? How are developing agencies making the shift to a more market-focused program strategy?

### 3.1. Assessing Markets and Designing Programs

This section describes the current trends in how program designers are assessing markets and using that information to design programs as well as some of the tools that program managers are using for market assessment. One common application of market assessment is to gain a broad understanding of potential target markets to help make broad, upfront program design decisions, including which markets to target. Increasingly, however, market assessments are becoming more focused on specific hypothesis. And, market assessment information is used to make decisions related not only to program design but also to implementation, midproject redirection, and monitoring and evaluation.

A variety of tools are now in use to help program designers understand markets and determine how to build on them to better include and benefit the poor. Many of these tools come from related fields such as BDS market development, local economic development, private-sector development—specifically competitiveness—and sustainable livelihoods. The greater communication among different development fields promoted by the M4P and value chain development approaches has resulted in an increasing variety of tools being used for market assessment. Many existing tools are being modified or combined with others to create frameworks for understanding how the poor are and could be integrated into markets. For example, competitiveness tools as discussed in chapter 2; local economic development tools combined with BDS market analysis tools;<sup>1</sup> participatory rapid appraisal methods to gather information for subsector and value chain analysis;<sup>2</sup> and sustainable livelihoods framework tools modified for greater emphasis on markets.<sup>3</sup>

The trend toward experimenting with new combinations of tools reflects efforts to incorporate the situations, problems, and needs of the poor into traditional market analysis or to incorporate a market focus into the tools traditionally used to assess the needs of the poor.

<sup>1</sup> GTZ 2005b.

<sup>2</sup> SDC 2004.

<sup>3</sup> ADB n.d.

### 3.1.1. Value Chain Analysis—Choosing Subsectors and Adding Analytical Elements

During the last few years, many donors and practitioners have been using innovative combinations of subsector and value chain analysis<sup>4</sup> and support (BDS) market assessment<sup>5</sup> that provide an ever more comprehensive, dynamic understanding of the market systems that engage and affect SEs.<sup>6</sup>

In the last year, there has been increasing use of value chain analysis as a helpful tool to design programs that integrate small enterprises into markets. Two trends are worth noting in the use of value chain analysis: (1) the different strategies and tools agencies are using to choose target subsectors and (2) the additional insights value chain analysis brings to understanding relevant market systems.

There is an ongoing debate about the best ways to choose an appropriate subsector to target. While many agree on an abstract set of principles that can be used to select target subsectors,<sup>7</sup> the process of who uses them and who makes the decision is in question. Some practitioners advocate a “low-tech” approach that builds on local knowledge. Others advocate a more extensive analysis of various subsectors to identify those with the most promising opportunities for small enterprises.<sup>8</sup> Following are some examples of processes for selecting subsectors:<sup>9</sup>

- Focusing on a business opportunity in order to create or expand a market for a specific product with high demand
- Focusing on the livelihood system within a specific region and investigating what this region could produce best to satisfy a demand and improve the livelihoods of the poor
- Choosing a country and product based on promoting products with good market potential and interesting pro-poor benefits
- Analyzing ideas generated by local stakeholders
- Analyzing the promise of various subsectors to achieve agency or program objectives
- Identifying those products for which a particular country or region has a competitive advantage
- Choosing a product with specific nutritious value or food safety problems, with the aim of promoting food security, food safety, and/or consumer protection
- Choosing a development service—such as health care or education—that is currently provided by nascent SEs markets

#### **Key Question:**

***Is the difference between subsector analysis and value chain analysis semantic, academic or practical?***

*Different agencies are using different definitions and the result is confusion among practitioners about if the emphasis on value chain analysis is a shift only in language or an actual shift in practice from subsector analysis.*

*The clearest explanation of the difference comes from the SDC Community of Practice on Rural Value Chains as follows: “The tools, methods, and procedures for subsector analysis can be very similar to those of value chain analysis. The difference lies in the focus. A value chain analysis looks at one market channel only, while a subsector analysis identifies the different channels within the overall subsector and then looks at the competitive relationships between those channels.” The suggestion from this community of practice is: “Always get the whole picture first (subsector analysis), then decide on specific value chain(s) and implement value chain analysis.”*

SDC 2004

<sup>4</sup> See Key Question for definitions of subsectors and value chains.

<sup>5</sup> Studies called “BDS market assessments” are referred to as “support market assessments” in this document.

<sup>6</sup> Lusby and Panlibuton 2004a.

<sup>7</sup> Ibid.

<sup>8</sup> SDC 2004.

<sup>9</sup> Ibid., DAI AMAP 2003; Lusby and Panlibuton 2004a.



## Example 11: Choosing Subsectors

### The CRESCE Project, DAI, Brazil

In Brazil, Development Alternatives Inc. is starting a new USAID-funded project called “CRESCE,” which is aimed at integrating micro and small enterprises into promising value chains. The project targets the poor northeast region of Brazil. Project staff conducted a three-stage process to choose targeted subsectors. First, they analyzed export data from Brazil and categorized which subsectors had rising market share and high growth tendencies. Then, they did a SWOT (strengths, weaknesses, opportunities, and threats) analysis on those subsectors and filtered them by specific development criteria, including the presence of micro and small enterprises in the subsector, employment levels, value-added potential, and the existence of any trade barriers, such as pending WTO sanctions. Last, they conducted on-site interviews with local leadership and other stakeholders to determine which of seventeen high-potential sectors would be feasible to work in. This process resulted in a choice of four subsectors: swimwear, honey, cashews and açai (a native Amazon fruit that grows in the wild).

For more information, contact Lara Goldmark, DAI at [Lara\\_Goldmark@dai.com](mailto:Lara_Goldmark@dai.com).

Source: DAI 2005. Source: IFC MPDF 2004.

The particular process often depends on the position and mission of the organization developing the program.

Donors and practitioners are increasingly incorporating several aspects of value chain analysis not typically included in subsector and support market studies: global benchmarking, interfirm

cooperation, the enabling environment, and governance. Global benchmarking is part of competitiveness analysis. It assesses the export competitiveness of a country for a particular product relative to other countries that export the same product. Another key factor in value chain competitiveness is interfirm cooperation—that is, how well businesses in the chain work together to quickly and appropriately respond to market demand. This aspect of competitiveness is seen as critical because it is easier to influence than the existence of natural resources and wage rates, for example. Many market assessments are also putting greater emphasis on understanding the business environment for particular value chains and the effects the business environment has on poor people or small enterprises, in particular. Increasingly donors and practitioners are studying not only the aspects of the business environment within countries but also global trade issues.<sup>10</sup> Program managers also find that understanding the governance in value chains is critical to designing strategies that increase the influence of and benefits to SEs in target value chains. Value chain analyses are also taking on a broader understanding of market demand by taking into account trends in target consumer markets.<sup>11</sup> These additional analytical elements are helping donors and practitioners design effective programs in the context of increasing globalization.

### *3.1.2. Putting the Poor at the Center of Market Assessment and Program Design*

As programs become more focused on making market systems work for the poor, market assessment is also becoming more focused on understanding poor people’s current position and relationships within markets and pinpointing why particular market systems are not including and benefiting poor people. This process starts with identification of markets that are important to the poor as producers or consumers of poverty reducing goods and services (for example, health care and education).<sup>12</sup> More than ever, the process of market assessment and design focuses tightly on

<sup>10</sup> Boquiren 2004; GDS 2004.

<sup>11</sup> Lusby and Panlibuton 2004b.

<sup>12</sup> Melin 2005.

## Example 12: Value-Chain Analysis in the Context of Globalization

### USAID AMAP, the Cocoa Subsector in Indonesia

Under the USAID-funded Accelerated Microenterprise Advancement Project (AMAP), Action for Enterprise (AFE) and ACDI/VOCA conducted an analysis of the cocoa subsector in Indonesia. Indonesia is the third largest cocoa producer in the world, with exports valued at approximately US\$600–\$700 million per year. On the island of Sulawesi, cocoa is the main source of income for smallholder farmers, who produce over 80 percent of Indonesia's cocoa exports. The study aimed to determine the major constraints and opportunities to growth and expansion of the cocoa subsector, to propose strategies to address those constraints, and to assess public- and private-sector investments to support cocoa in Indonesia. In addition, the study included analyses of Indonesia's position within the global market for cocoa and how the governance of the global value chains affect Indonesian farmers.

For more information, see <http://www.microlinks.org> or <http://www.bdsknowledge.org> (search by ACDI/VOCA and Indonesia), or contact Henry Panlibuton at [henry@actionforenterprise.org](mailto:henry@actionforenterprise.org) or Maggie Meyer at [MMeyer@acdivoca.org](mailto:MMeyer@acdivoca.org).

Source: Panlibuton and Meyer 2004.

generating ideas for how to address the underlying causes for poor people's exclusion from markets. Market assessors are also increasingly getting feedback on those ideas from market players and stakeholders during the market assessment and program design process.<sup>13</sup> The focus on the poor

and the process of generating and assessing solutions with input from stakeholders has changed market assessment from a relatively neutral procedure to understand how market systems work to a proactive part of the program design process focused on poor target groups.<sup>14</sup>

Due to this change in focus, program designers are more actively seeking information from very small enterprises and poor people. Market assessments increasingly apply tools appropriate for gathering information from these target groups and/or adapt more formal tools to gather information from these groups. Some examples of strategies are the following:<sup>15</sup>

- Seeking information and perspectives from those people in communities who would not necessarily actively participate in a community meeting or focus group discussion such as those in the lowest socioeconomic strata
- Allowing adequate time in interviews and in market assessment studies to understand different perceptions and the complexity of problems related to poor people's participation in markets
- Asking entrepreneurs with very small businesses about their business problems and their interest in potential benefits from particular business solutions, rather than asking them about their interest in accessing particular support products or services per se
- Exploring business relationships and the variety of core and support products and services that flow through them
- Ensuring that interviews are conducted in the language most comfortable to the respondent and do not include academic or unfamiliar terms
- Using interviewers who are close to the target group both in terms of location and culture and who have local knowledge and contacts

<sup>13</sup> "Market players" are the wide range of businesses—suppliers, SEs, processors, traders, retailers—and their related groups and associations that have a financial interest in the market, whether the market is a value chain or a support market. "Stakeholders" are market players plus governments, NGOs, research institutes, donors, and others concerned with the well-being of target markets.

<sup>14</sup> Dorward et al. 2002; Melin 2005.

<sup>15</sup> Eiligmann 2005; Haight 2004b; Nussbaum and Miehlbradt 2003.



## Example 13: Putting the Poor at the Center of Market Assessment

### IDE BDS-MaPS, Nepal

In 2004 International Development Enterprises (IDE) assessed the market for nontimber forest products (NTFPs) in Nepal. They started with a working hypothesis: The incomes of poor gatherers and cultivators of NTFPs could be increased by strengthening the value chains for selected NTFPs—in particular, selected herbs and spices—and integrating poor gatherers and cultivators more effectively into those domestic and international value chains. In the area of Western Nepal where IDE chose to work, there were approximately 22,000 poor households gathering and/or cultivating NTFPs. These were landless households and smallholders (.5 hectare or less). The target group included minority communities and very low income women not usually engaged in agriculture development efforts but who regularly gather NTFPs.

IDE interacted with and gathered information from a wide range of market players and stakeholders. They developed an understanding of the domestic and export value chains for a range of NTFPs from producers through to consumers. However, the information gathering and analysis was not academic. It was focused from the start on identifying promising products from which the poor gatherers and cultivators could earn more income and pinpointing constraints along the value chains that were preventing them from doing so. The market assessment team gained the perspectives and ideas of various market players—including poor NTFP gatherers and cultivators, traders, and exporters—through a variety of individual and group methods, including in-depth interviews, focus group discussions, and group meetings with subsector stakeholders. During the information gathering and analysis, IDE staff regularly asked themselves and subsector stakeholders, “What changes could IDE make in markets that would result in poor gatherers and cultivators earning more income from NTFPs?”

The resulting program activities, funded by USAID, reach from the poor producers through to exporters and government agencies. They include strengthening national and international market links, lab testing facilities, quality standards, producer groups, and the industry association; establishing processing plants; and promoting sustainable harvesting and cultivation of commercially viable NTFPs. The project also advocates for the formulation of a rational regulatory framework for collection, production, and trade of NTFPs. The program activities target a range of different market players and the business environment for NTFPs. Yet, the program is ultimately focused on increasing the incomes of poor NTFP gatherers and cultivators.

For more information, see <http://www.bdsknowledge.org> (search by IDE and Nepal) or contact Bhimsen Gurung, IDE, at [bhimsen\\_simi@clicknepal.com](mailto:bhimsen_simi@clicknepal.com) or [bhimseng@yahoo.com](mailto:bhimseng@yahoo.com).

Source: BDS MaPS 2004c, 2004d.

■ Ensuring that information and perspectives are sought from both women and men in ways that are comfortable for them

The resulting program designs are increasingly taking into account the needs of poor target groups to:<sup>16</sup>

- Realize significant benefits from a modest investment in the short term
- Reduce, or at least not increase, risk
- Minimize or avoid direct payment for support products and services until some benefit from them has been realized

<sup>16</sup> Bista 2004a; Eilgmann 2005; IDE 2004c; Magistro et al. 2004.

- Understand and have confidence in the potential benefit of an investment in their businesses before undertaking the investment
- Be assured of market access for their products and services
- Increase their access to information
- Build social capital as well as income and assets

This poor-focused market assessment and program design process is helping organizations integrate poorer target groups into markets than was considered possible a few years ago.

Putting the poor at the center of market assessment does not mean that programs direct their activities to poor entrepreneurs in isolation. Rather, designers look at and target entire market systems from the perspective of how to increase incomes and assets of poor people as participants in those market systems. Part of the purpose of a systemic market assessment is to identify how to focus program resources on the market players that need to change behavior in order to achieve a market system that works better for the poor. Often, these are buyers and sellers and support product and service providers, and local governments, who control and influence markets. The programs' aim is to increase the participation of the poor in markets and their benefits from that participation rather than improving and expanding markets for the purpose of general economic growth.

### 3.1.3. Understanding Demand

For some time, donors and practitioners have been shifting from a supply-driven approach to a market- and demand-driven approach. Supply-driven approaches focused mainly on increasing production in value chains or making support products and services available to small enterprises. Being market driven often refers to paying attention to the demand of end consumers of value chain products and helping value chains to compete for market share. Being demand driven, in this context, often refers to paying attention to the demands of value chain players—SEs and other businesses in the chain—for

support products and services. The increased focus on both is resulting in a growing emphasis on market trends and demand for support products and services within market assessments. For example, value chain analysis incorporates understanding consumer demand for specific products on a global basis.<sup>17</sup> And, market assessments include increasingly careful and targeted information gathering from market players regarding their demand for support services and products.<sup>18</sup>

### 3.1.4. The Benefits of Participatory and Incremental Approaches to Market Assessment and Program Design

Debates persist about the best way to conduct preprogram market research. Nevertheless, the benefits of a participatory and incremental approach to market assessment and program design are becoming increasingly evident. Practitioners are finding that explicitly involving market players and other stakeholders in market assessment can have a host of benefits for the project, including the following:<sup>19</sup>

- Understanding of each party's perception of the market opportunities
- Understanding the dynamics of existing relationships, such as which are strong and what are the barriers to better cooperation
- Raising market players' awareness of opportunities for value chain collaboration and deepening their understanding of the causes of market failure
- Helping to gain buy-in to project objectives and pave the way for market players' and other stakeholders' involvement in project activities
- Developing contacts and relationships with market players
- Identifying market champions who help with project implementation or who are early adopters of market opportunities the project promotes
- Building the foundation for networks and institutions that can help implement the project and sustain value chain activity beyond the life of the project

<sup>17</sup> Lusby and Panlibuton 2004b.

<sup>18</sup> Bear 2005; Haight 2004b.

<sup>19</sup> Miehlbradt 2005.

## Example 14: Researching Global Demand for Products

### A World Bank Study in Kenya

In 2004, the World Bank commissioned a study of growth and competitiveness in Kenya, part of which analyzed the value chains for cotton-to-garments, coffee, pyrethrum, and floriculture. In addition to analyzing production and distribution systems in Kenya, the study examined the global market for the products in depth and gathered detailed information on the demand from consumers in different countries for particular types of products for which Kenya might be able to increase their exports.

The cut flower industry employs forty to fifty thousand workers and is the second largest foreign exchange earner for the country. The industry has been a success story for Kenya, which supplies 62 percent of all roses purchased in the EU. The industry in Kenya is dominated by large enterprises that have penetrated EU markets by operating flexibly and adapting to fast-changing markets. However, changes in EU demand for cut flowers—from low-value, open-field crops to high-value, wide-variety greenhouse crops—are increasingly marginalizing small- and medium-sized flower growers. The study analyzes both the production systems and cost structures of small and medium rose growers as well as the characteristics of demand for cut flowers from Kenya's key export markets. For example, the study notes that during the 1990s, demand for new and frequent change in varieties increased, forcing growers to shorten the life cycle of selected varieties. Small- and medium-sized growers must buy new varieties at auctions that stringently apply royalties for propagators. These royalty payments account for almost 60 percent of the total value of a new variety. Without proof of payment of these royalties, growers cannot sell their flowers through the major auctions.

The 1990s also saw increasing pressure from EU buyers to ensure strict quality control and comply with environmental regulations such as those related to minimum residue levels. In the last several years, there has been a clear market trend toward the sale of cut flowers through supermarkets in the EU. Selling through this channel requires prepacks with ready labels and guaranteed vase life. Increasingly, consumers, particularly those purchasing at supermarkets, prefer mixed bunches of flowers rather than bunches of a single variety. To survive as this trend intensifies, small- and medium-flower growers will need to form linkages with each other and with large enterprises to combine open-field flowers and filler flowers with more traditional flowers to target the mixed-bunch prepack market. This kind of detailed analysis of consumer behavior in global markets and the implications for production and marketing, common in the private sector, is becoming increasingly common in development programs as well.

For more information, see <http://www.bdsknowledge.org> (search by World Bank and Kenya) or contact Dr. Vyjayanti Desai, the World Bank, at [vdesai@worldbank.org](mailto:vdesai@worldbank.org).

Source: GDS 2004.

Practitioners are also finding that it is more useful to conduct market research incrementally than to conduct one large study at the beginning of a project. Initial information gathering often leads to changes in direction or new research questions. Small discrete studies that build on each other or a

rolling analysis that feeds new questions and ideas into ongoing research tend to lead practitioners more quickly and efficiently toward program design than large, comprehensive studies.<sup>20</sup> Keeping market assessments flexible and responsive to changing ideas based on information gathered also allows

<sup>20</sup> Bear 2005; Miehlbradt 2005; Roggekamp 2004.

agencies to control costs and focus on the information most relevant to program design.<sup>21</sup> Indeed, some program managers are now consciously integrating later stages of market research with pilot projects. This strategy highlights gaps in information gathered and feeds subsequent information quickly into the design and implementation of pilot projects. Overall, this tends to result in quick, market-responsive adjustments to project activities.<sup>22</sup>

**Key Question:**

**How much information is enough?**

*As donors and practitioners delve deeper into markets, they are realizing the level of complexity of markets and market problems. To design and implement programs that generate sustainable changes in markets, program managers must understand core markets, support markets, the business environment, the situation and capacities of the target group, and a host of contextual factors such as social, environmental, and gender issues. At the same time, the patience and funding for extensive market research is limited. How can programs get enough information with limited time and budgets? The answer lies perhaps not in how much information to gather but when to gather it. Some practitioners are finding success with starting projects based on relatively small studies of one to several months and then continuing to gather, document, and use information as projects proceed.*

Donors and practitioners are also finding that qualitative information gathering is more useful for designing market development programs, especially those targeting the poor and/or weak markets. While quantitative studies or quantitative secondary data

can be useful for setting broad program directions and are often essential for baseline information for monitoring and evaluation, secondary studies typically leave out the poor, and rigid quantitative questions tend to yield unhelpful results when target SEs have little market experience. Following are several key strengths of qualitative information for making project design decisions:<sup>23</sup>

- Qualitative information provides a richer understanding of the market context and the relationships among market players. This information is useful for choosing what types of enterprises to work with, determining how market relationships and embedded services could be enhanced to achieve specific market changes, and developing opportunities that will engage specific market players.
- Qualitative methods can uncover nascent business models with the potential for upgrading, replication, or expansion.
- Qualitative information helps program managers understand the reasons for market players' behaviors and develop strategies for increasing incentives to include SEs and/or the poor in specific value chains and market systems.

### 3.1.5. Market Assessment during Program Implementation

Practitioners are finding that market assessment is a useful aid throughout project implementation to help make day-to-day implementation decisions as programs mature, as well as decide on strategic shifts. Because a complete understanding of the market is rarely possible before a program starts, many programs engage in continuous market assessment as they launch initiatives, learn from them, learn more about the market and how it is changing, and then launch further initiatives.<sup>24</sup> Regular market information can also help project managers determine if, to what extent, and how a project is affecting particular markets. The most effective market development projects today use market research as one tool to help project

<sup>21</sup> Engelmann and Isiaho 2004.

<sup>22</sup> Miehlbradt 2005.

<sup>23</sup> Ibid.; Engelmann and Isiaho 2004; Jones and Shaikh 2004.

<sup>24</sup> Idrovo and Boquiren 2004; Miehlbradt 2005.

managers and staff experiment, learn, and revise project interventions in an ongoing cycle.<sup>25</sup>

### 3.2. Developing Value Chains

This section focuses on a common strategy for stimulating markets to work better for the poor: incorporating SEs into growing value chains. Private-sector and agricultural-development initiatives have been using a value chain approach for some time, so what is new about making the

approach work for the poor or integrating SEs into value chains? First, recent programs more explicitly reach down market to ever smaller and poorer entrepreneurs. They do this not only to eradicate poverty but also to improve competitiveness of the value chains.<sup>26</sup> With small-scale producers involved, some value chains can be lower cost and more flexible. In some instances SEs bring skills and resources that only small-scale producers possess; for example, craft traditions in hand-made items or specific growing conditions that exist in areas dominated by small-scale farming. Evidence from successful efforts demonstrates that the poor can

#### Example 15: Incremental, Participatory Market Research in Project Design and Implementation

##### SDCAsia in the Kaong Subsector in the Philippines

Kaong is the sweetened fruit of a particular variety of sugar palm abundant in the forests of Davao del Sur in Mindanao, Philippines. SDCAsia, with funding from USAID and Swisscontact is conducting a project to link indigenous communities who semiprocess Kaong with mainstream markets and to improve the competitiveness of these value chains in which they participate. The project focuses on improving the semiprocessing activities of the indigenous people communities, strengthening links in the value chain, increasing and improving business services throughout the value chain, strengthening horizontal links among market players, and establishing and promoting process and product quality standards.

In order to design the project, SDCAsia gathered basic quantitative information on the Kaong industry as well as substantial qualitative information on poor producers and other market players, relationships in the Kaong subsector, final markets, and support services. As the project started, SDCAsia continued to build its understanding of market dynamics and key market relationships. Throughout implementation, SDCAsia has gathered information and feedback from the market players involved in the project, including changes they have made, satisfaction with the changes and new issues, constraints, and opportunities. SDCAsia conducts frequent feedback sessions with market players to help find win-win market solutions that will help poor producers and other market players. SDCAsia also regularly tracks changes in the Kaong market and gathers information on a few key quantitative indicators that help the organization understand the impact of the project on the subsector and poor producers. The qualitative information, together with key quantitative indicators, helps SDCAsia both improve the effectiveness of the project and continuously identify new opportunities and niches where the products of indigenous communities could be competitive. Project staff regularly share information gathered with market players to get their perspectives and discuss how to move forward.

For more information, see <http://www.sdccasia.ph> or <http://www.bsdknowledge.org> (search by SDCAsia and Philippines), or contact Marian Boquiren at [mb@sdccasia.ph](mailto:mb@sdccasia.ph).

Source: Idrovo and Boquiren 2004.

<sup>25</sup> Miehlbradt 2005; Roggekamp 2004.

<sup>26</sup> USAID 2005a.

substantially increase their income, assets, and even economic security through careful participation in global markets through value chains. The strategy of “embedding services” opens up this opportunity by encouraging buyers and/or input suppliers to build the capacity of small-scale producers they do business with. The buyers and input suppliers do this in order to improve their supply chain or to increase sales, respectively. Integrating SEs into value chains, however, is full of challenges. In 2005 practitioners are reporting innovative solutions to addressing these challenges, reaching down market, and improving SE benefits from value chain participation.

### **3.2.1. The Value Chain Development Process**

Although value chain development has been around for quite some time, there are a number of entry points and different sets of steps that experts recommend when attempting to incorporate SEs and the poor into value chains. Table 1 below illustrates three sets of recommended steps in developing value chains. These have similar elements but different emphasis and starting and ending points.

As a starting point, the “Territorial Approach” assumes that the goal is local economic development (LED) and thus starts by mobilizing the community. The other two strategies would be initiated by national governments, NGOs or donors less invested in particular communities. They start by identifying high potential sectors and chains. The third list of steps is a program design framework and thus stops at the identification of program activities, whereas the other two blend program design and implementation.

The following are some steps of each process that have evolved based on lessons learned:

- Selecting subsectors with growth potential and potential to include SEs and/or the poor
- Analyzing value chains for opportunities and constraints to competitiveness and to SE participation
- Engaging businesses in the value chain in the program design and strategic planning process
- Creating a business plan or future vision for a sustainable value chain
- Planning for the provision of support services to value chain businesses

Some elements that exist in only one or two strategies but that are notable among innovative and/or better performing programs include:

- Assessing and strengthening support markets, rather than providing services directly to value chain players on a subsidized basis
- Advocacy work to address constraints in the business enabling environment
- Moderating relations among actors in the value chain
- Identifying change agents most likely to lead changes in the value chain

Notably absent from all three lists is establishing and implementing monitoring and evaluation systems. At this point, then, there are several recommended processes for value chain development and some consensus around key elements that work, while other issues are still being explored.



**Table 1: Steps in Value Chain Development**

<b>A. Territorial Approach to Rural Agro-enterprise Development<sup>27</sup></b>	<b>B. Virtual Conference on Rural Development Debate<sup>28</sup></b>	<b>C. A Subsector/Value Chain Program Design Process<sup>29</sup></b>
<ol style="list-style-type: none"> <li>1. Interest group formation and characterization of a territory</li> <li>2. Organization of farmers</li> <li>3. Identifying markets and chain analysis</li> <li>4. Developing a strategy and a business plan with chain actors</li> <li>5. Strengthening support services for selected market chains</li> <li>6. Advocating for policy change</li> </ol>	<ol style="list-style-type: none"> <li>1. Select and analyze the value chain</li> <li>2. Define a value chain hypothesis for a well-functioning value chain.</li> <li>3. Identify change agents most likely to buy into the idea</li> <li>4. Facilitate the identification of strengths, weaknesses, opportunities, and threats for the realization of the concept</li> <li>5. Assist the value chain actors to identify leverage points and decisions on an action plan</li> <li>6. Support the value chain actors by providing financial, technical, and moral support and/or training and capacity building</li> <li>7. Moderate relations among businesses in the value chain.</li> </ol>	<ol style="list-style-type: none"> <li>1. Selection of economic sector (subsector)</li> <li>2. Subsector/value chain analysis</li> <li>3. Identification of commercially viable solutions to increase competitiveness</li> <li>4. Market assessment of solutions / services</li> <li>5. Identification and selection of program interventions</li> </ol>

### 3.2.2. Addressing Market Influence

A key challenge practitioners are facing in improving returns to the poor from market participation is the power or governance structure of these markets. One reason the poor are often either excluded from market participation or participate on unfavorable terms is that markets are dominated by a wide range of powerful interests, ranging from international corporations to monopolistic local traders, from corrupt cooperatives to the WTO. These institutions

hold influence on the market rules and over the prices and other terms of market exchange. The poor often do not understand the rules and are usually price and term takers. Shifting these detrimental market structures is a significant focus and challenge of many value chain development programs, although they may use less political language to describe their intent.

Because each market or value chain is different, different strategies are useful in different contexts.

<sup>27</sup> Best, Ferris, and Schiavone 2005.

<sup>28</sup> SDC 2005b.

<sup>29</sup> <http://www.actionforenterprise.org>; Lusby and Panlibuton 2004.

## Example 16: Strengthening Agricultural Value Chains

### USAID Kenya BDS in the Mango Subsector

The USAID Kenya BDS program, implemented by the Emerging Markets Group, has helped some 2,500 small-scale mango growers to double their prices in a year and a half. Kenya BDS contracted a Kenyan NGO, SITE, as market facilitator for its initiative in the central Kenyan mango value chain. Based on detailed value-chain analysis, SITE set out to help farmers improve quality and linkages with export buyers. SITE mobilized mango growers into eighty-three producer groups across eight mango production areas. These groups form a base for accessing extension services and markets. SITE has facilitated access to extension and agrochemical spraying services through linkages with input suppliers to reduce pests and improve yields. SITE has also tested commercial extension models by training and mentoring five entrepreneurs to provide these services.

In addition, SITE attracted six exporters to enter direct relationships with farmers, some of whom have as few as twenty trees. This has resulted in the doubling of farmer prices, as well as increased sales due to less spoilage. SITE has also facilitated payment arrangements in which buyers pay farmers using bank transfers or checks, rather than cash, so that farmers are no longer vulnerable to attacks on the day they sell their fruit. The mango initiative is one of several similar projects in the Kenya BDS program, which has linked over 6,500 farmers to markets and helped some 30,000 SEs access commercial financial and business services.

One example of such impact is with Julius, a retired supervisor in an animal feeds production plant. Julius struggled to set up a small-scale mango farm over years of drought in the 1990s, however finally managed to establish around 320 grafted trees, from which he earned between 4,500 and 46,000 Kenya shillings, depending on the rains. In 2003, he joined a group of farmers facilitated by SITE, accessed production advice and services that improved his yields of grade 1 mangoes, and sold directly to an exporter for the first time. His earnings in 2004 topped 200,000 Kenya shillings. He has used his increased earnings to buy food and clothing for the family, to pay college tuition for his son, to start building a house, to open a retail shop nearby, and to reinvest in his mango farm. This year, he was elected chairperson of the fifty-six-member Makika Horticultural Group.

For more information, see <http://www.kenyabds.com> or <http://www.bdsknowledge.org> (search by Kenya BDS).

Sources: Emerging Markets Group 2004b–d, 2005b–d.

Effective strategies start, however, by including an analysis of market governance and influence in the market assessment, without assuming that specific types of businesses, especially middlemen, are always exploitative. Some markets may not have influence issues, and in some markets, the governance problem lies in unexpected places.

Some strategies to help the poor gain more influence in the market include the following:

- **Improved interfirm cooperation:**<sup>30</sup> Some market facilitators are strengthening interfirm cooperation in the value chain in order to improve quality and competitiveness.<sup>31</sup> Quality

<sup>30</sup> ATA 2005; Biénabe and Sautier 2005; Chalmers et al. 2005; MEDA 2005a; Mercy Corps 2004, 2005a; USAID 2005a.

<sup>31</sup> A market facilitator is a development organization with no financial stake in the target market who conducts subsidized, short-term activities to stimulate markets to work better for the poor. A facilitator is not a market player but may be a stakeholder such as a government agency, research institute, NGO, or donor.



improvements often depend on collaboration of buyers and suppliers in establishing, implementing, and certifying quality standards. All players, and SEs in particular, need capacity built to improve quality. This type of collaboration requires a “team” mentality and trusting, long-term relationships between suppliers and buyers in the chain. Adversarial relationships shift to collaborative ones. These processes can lead to buyers both respecting and needing SEs more, improving SEs’ bargaining position and terms in the market.

- **Increased competition:**<sup>32</sup> Many markets serving SEs are monopolistic. Some market facilitators try to increase the number of market channels reaching SEs, thus increasing competition for the poor as customers or suppliers. This improves their bargaining position.
- **Proactive policy:**<sup>33</sup> In some instances, governments use their power to protect or benefit SEs in disadvantageous market positions. They may develop incentives and/or standards for large firms doing business with SEs. They may regulate monopoly markets to try to preserve competition. They may regulate certain types of credit to ensure it is not predatory. They may create channels for SEs to make complaints, and they may mediate disputes. The role of the market facilitator is often to push for such policies or to promote and monitor their implementation.
- **Confrontation:**<sup>34</sup> In some circumstances where the above efforts fail, some facilitators encourage or engage in direct and open confrontation with powerful market players. The Self Employed Women’s Association in India,<sup>35</sup> for example, has a long history of mobilizing self-employed women to confront their buyer/employers and bargain for better work conditions.

### Example 17: Increasing SE Influence in the Market by Increasing Competition in Value Chains

#### MEDA, Nicaragua

With CIDA support, MEDA developed a project in Nicaragua to aid the sesame subsector, helping it become more competitive in international markets. MEDA conducted competitiveness and value-chain analyses to understand how the Nicaraguan sesame subsector could improve its market position globally. The project provided producers with technical assistance in production, processing, and marketing through cooperatives. The project then worked with exporters to strengthen alliances between them and producer groups, thus strengthening links up and down the market chain. In some cases, however, the project has worked to increase competition among exporters and break up virtual monopolies that individual exporters had in certain regions. In one case, by bringing in additional competition from other exporters, the project increased the price paid to farmers. The umbrella cooperative responded by increasing its price paid to farmers as well. Many farmers had assumed that the cooperative was paying higher prices and were not actively checking the competition’s prices. The result was a 25 percent increase in the price paid to cooperative sesame producers and a 50 percent increase in farmer yields.

For more information, see <http://www.meda.org>.  
Sources: McVay and Rannekleiv 2005; MEDA 2005d.

<sup>32</sup> Idrovo and Boquiren 2004; MEDA 2005d; Prahalad 2005; SDC 2005.

<sup>33</sup> World Education 2005.

<sup>34</sup> Idrovo and Boquiren 2004; Laker-Ojok 2004; MEDA 2005d.

<sup>35</sup> <http://www.sewa.org>.

Facilitators are currently learning lessons about which strategies work better in what circumstances, and how to conduct each strategy effectively. So far, the strategies seem quite tailored to the market setting, the drive and comfort level of the less powerful businesses, and the comfort level and skill base of the organization implementing the program.

### 3.2.3. Strengthening Market Linkages: Who?

There is an ongoing debate about who development agencies should engage with to make markets work for the poor. Some newer programs focus exclusively on creating more direct large-firm to small-firm linkages. Other new initiatives are committed to building up community-based, small-scale trader networks that help SEs reach more distant markets. The choice is often made based on ideology. However, effective solutions lie in a good understanding of the specific market in question, rather than a presupposed solution.

Some market structures easily direct the choice. Markets dominated by large-scale suppliers or buyers who would benefit from improved and increased engagement with SEs, and the existence of some positive models, demonstrate the potential for enhancing large-firm to small-firm linkages. Markets without such market leaders are often dominated by multiple relationships among different types of SEs and one has no choice but to work with these less formal intermediaries. In these situations, the choice is clear.

In many markets, the two types of value chains compete—the more formal chain, dominated by large-scale buyers, and the informal chain, characterized by a complex and often hard to understand web of interrelated and competing SEs and often labeled as exploitative. Market facilitators are often faced with a choice of who to work with. Usually, value chain developers choose to bring SEs into the large-scale dominant chain, thus strengthening that chain over the informal chain.<sup>36</sup>

#### **Key Question:**

***What is the best way to address power imbalance based on ethnicity, race, gender, or other entrenched social norms?***

*Many markets in which one group of businesses holds significant influence in the market are also often characterized by significant social divides. Traders are often a different ethnicity than producers; exporters and large-scale buyers are of a different social class and gender than SEs. These social barriers enhance inequalities and heighten mistrust on both sides. They are difficult for “objective” facilitators to confront, in part because facilitators tend to have business or economic training rather than social or political negotiation skills. Yet these barriers are common and can severely impeded value chain development. How should facilitators deal with these types of power imbalances?*

In the short run, this avails SEs of better quality, longer lasting market relationships and better prices, but the market relationships tend to be monopolistic and the informal traders, left out of the program, continuously attempt to disrupt the value chain. Some innovative programs are addressing this issue by taking a more nuanced approach, mobilizing a wide range of businesses in the subsector, even those in competing value chains, and opening opportunities to a wider range of market intermediaries. In some of these programs, informal traders are carving out useful roles in the more formal chains as intermediaries, brokers, trainers, or group organizers. Thus, the solution to who to engage with in strengthening value chains for the poor is often best left up to the value chain players themselves, which can be determined through participatory mobilization processes, rather than by supporting a proscribed business model.

<sup>36</sup> Emerging Markets Group 2004e, 2004f; Ferrand et al. 2004; SDC 2005.

## Example 18: Who Helps Markets Work for the Poor?



### World Education's Ntinga LINK Programme, South Africa

With USAID support, World Education (WE) in South Africa has initiated a program to help small-scale construction firms owned by previously disadvantaged individuals (PDIs), to benefit from the countrywide construction boom. Given the predominance in the market of large-scale private- and public-sector contracts being awarded to large construction firms, the overall strategy is to increase viable subcontracting from large to small construction businesses. The South African government promotes this initiative by mandating that contractors building for the government subcontract work to

PDI-owned businesses. In its market analysis, WE identified a set of support services in high demand by small-scale construction businesses, services that would help them to bid for and win subcontracts from large construction firms. These include information about bidding opportunities, skills in bid preparation and job costing, access to finance to procure inputs and pay workers during contract implementation, and improved operational and technical skills on the job.

WE has identified or worked with three types of support service providers in developing the market for these services:

1. **Traditional providers:** WE has helped NGOs and private consultants that work with SEs to design and sell services that help target SEs find out about and bid for contracts.
2. **Input Supply Brokers:** Some input suppliers provide inputs on credit to brokers, who on-lend to SEs who are bidding on and/or have won construction contracts. The brokers give technical assistance in costing the job prior to the bid, provide inputs on credit, troubleshoot during contract implementation, and collect payments.
3. **Large-Scale Input Suppliers:** Some large-scale input suppliers provide the same services directly to SEs, in-house.

As of December 2004, Ntinga LINK had partnered with nearly thirty support service providers who served more than ten thousand firms—90 percent of them being microenterprises and 32 percent of them owned by women. The value of contracts awarded to the MEs was over US\$6 million, and provider income was approximately \$106,000. One of WE's most successful initiatives is the Access to Resources Seminar series that promotes interaction between support service providers and small-scale contractors, spreading awareness about services and service delivery models to stimulate replication.

For more information, see <http://www.worlded.org> or <http://www.worlded.co.za> or e-mail [ntinga@worlded.co.za](mailto:ntinga@worlded.co.za).  
Source: Sethna 2005.

Whatever the dominant market structure, most value chain development initiatives facilitate groups. These groups increase coordination among value chain players, improve quality and market position, achieve better economies of scale in accessing support services and products, and help programs gain efficiency in building SE capacity to meet market specifications.<sup>37</sup> The traditional group strategy is to help small-scale producers form cooperatives to go around middlemen and sell more directly to large-scale buyers, or to alternate fair trade markets. Although it has been successful in some instances, this strategy is widely viewed as too challenging in many circumstances because it places too much of a burden on producer cooperatives to play multiple functions in the value chain. Rather, producer organizations may be more effective at simpler functions such as representation and advocacy, information sharing or capacity building, joint purchase of raw materials, and value chain coordination. Experts further recommend that the function and capacity of producer organizations be left up to the members, with development agencies helping to organize, educate, and build capacity.<sup>38</sup> In addition, many value chain developers are facilitating groups for a wider range of businesses in the value chain—not just SE producers.<sup>39</sup>

Thus, although group formation is still an intrinsic part of most value-chain approaches, the types and functions of groups continue to evolve. Some examples of types of groups and their functions that are emerging in recent value-chain development programs include the following:

- **Producer associations functioning as loose clusters.** These are stimulated by a development agency but then take on a life of their own, branching out from an initial limited function to a broader range of functions. For example, they may start by sharing information about the market and production, move on to advocating

or negotiating as a group, slowly begin to access services as a group, graduate to joint procurement of inputs and/or joint marketing, and eventually move on to joint processing, packaging, and/or branding. Most producer organizations, especially those operated by the poor, remain at a basic level, in part because more sophisticated operations require handing over authority to more educated members or staff, and the poor risk being exploited in these situations.<sup>40</sup>

- **Interprofessional bodies made up of businesses and other stakeholders** that represent the wide range of functions in the value chain come together to improve value chain competitiveness. Like producer organizations, these trade bodies need to grow gradually and many remain at a basic level. Typical activities for these groups—in order of sophistication—include information sharing (including newsletters, libraries, databases), hosting training events and seminars, advocacy, joint trade show attendance, the development of a value chain competitiveness strategy, trade show facilitation, and, sometimes, quality control and branding.<sup>41</sup> Most trade bodies like this do not include SEs or the poor, but sometimes SEs are able to join as associations or producer organizations. Even when the poor are not directly represented, they can benefit as suppliers to members.

- **Associations of brokers, traders, input suppliers, or service providers.**<sup>42</sup> In value chain initiatives seeking to strengthen indigenous or informal trading networks, programs often achieve efficiency by bringing small-scale intermediaries together for training. Networks have emerged that have resulted in improvements in the value chain. Their activities range from those more typical of producer organizations to those of a trade body.

<sup>37</sup> Biénabe and Sautier 2005.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.; ATA 2005.

<sup>40</sup> Mercy Corps 2004, 2005a.

<sup>41</sup> Biénabe and Sautier 2005; ATA 2005.

<sup>42</sup> Ibid; Idrovo and Boquiren 2004; GFA 2005; Laker-Ojok 2004; Mercy Corps 2005.



## Example 19: Producer Clusters Served by a Cluster of Support Providers

### Mercy Corps CABS in Azerbaijan

Mercy Corps, with support from USAID, is implementing the Cluster Access to Business Services (CABS) program in rural Azerbaijan. The program helps cattle owners access veterinary services to improve livestock survival rates and overall health. The program initiated clusters of livestock owners to stimulate demand for veterinary services and to make it worthwhile for veterinarians to service remote areas with curative and preventative services. As a result, milk production has increased and many farmer clusters have expanded their activities and are helping farmers access milk markets.



In addition, CABS-associated veterinarians are forming a network of vets. The cluster was initiated when CABS held an event to help vets link to service providers such as trainers, government agencies, and regional veterinary laboratories, as well as consultants and trainers in communications, marketing, and management. The vets report that the network has been instrumental in the following ways:

- Handling disease outbreaks and coordinating vaccination campaigns
- Pooling resources to access technical consulting services
- Facilitating bulk purchases of medicines
- Conducting educational and awareness raising campaigns around preventative veterinary services

To date, CABS has helped some fifty veterinarians provide services to more than four thousand remote, rural livestock farmers, of which 34 percent are women. One of the challenges Mercy Corps reports is the labor intensity of forming farmer clusters. CABS is experimenting with passing this role on to veterinarians wishing to open up new territory for business.

For more information, see <http://www.mercycorps.org> or [www.bdsknowledge.org](http://www.bdsknowledge.org) (search by Mercy Corps and Azerbaijan). Source: Mercy Corps 2005a.



These groups of various partners in value chain development have emerged as facilitators seek ever more nuanced market development strategies, tailored to specific market contexts.

Whomever a facilitator works with, one answer to the question of who develops value chains that work for the poor is becoming clear: entrepreneurs.<sup>43</sup> In a wide range of programs and market structures, facilitators are reporting that a critical element of success is the substantial involvement of entrepreneurial leaders in key roles in the value chain. These leaders—chain champions, change agents, social entrepreneurs—have a financial and social investment in making the value chain work, and they are committed to the vision of a value chain that competes on quality. They understand that this requires all players to invest in long-term, mutually beneficial relationships. These leaders are critical throughout the value chain development process—in initiating the change process and bringing key player to the table, in identifying solutions and taking risks to demonstrate the potential for new ways of doing business, and in sustaining market collaboration over time. Thus, identifying and empowering these entrepreneurial leaders is a critical role for facilitators.

### **3.2.4. Strengthening Market Linkages: How?**

Value chain development is fundamentally about strengthening market relationships so that businesses work better together to compete more effectively in the global market.<sup>44</sup> Strengthening market linkages is, therefore, a key component of most value chain programs. The focus is on building win-win relationships or aligning business interests that attract and keep all players engaged in productive collaboration that benefits target SEs, well beyond the life of the project. How are value chain developers doing this and what lessons are they learning along the way?

Some programs are focusing on specific relationships among different value chain players, working to ensure that each link of the value chain is performing its various functions and that support services flow through these relationships smoothly.<sup>45</sup> They do this by charting each market relationship, assessing it at baseline, developing a future vision of what a well-functioning relationship would be like, and monitoring it as the project proceeds. Some programs track each function and support service in the value chain against these relationships to see how the businesses are performing in each functional or service area.

For example, at the beginning of a program, the relationship between farmers and informal buyers may be one of mistrust in which farmers report that traders are cheating them with very low prices, and traders report that farmers put stones in the bags of produce to make them seem heavier. The project's vision might be one in which traders and farmers work together in an atmosphere of trust to produce higher value crops at appropriate times in the market and parties resolve conflicts through a neutral negotiating body. Midway through the project, managers might report that a body representing traders, farmers, and local leaders had been established and that farmers and traders both recognize the potential for higher value crops and the need to work together to produce them. The project would then keep tabs on several market relationships that it was strengthening.

This type of system helps project staff develop a specific set of activities to strengthen different functions of a range of target relationships, to assess the effectiveness of the activities, and to change course if necessary. It also allows for improved reporting on the progress of developing market linkages and, ultimately, sharing of lessons learned.

<sup>43</sup> Best, Ferris, and Schiavone 2005; Idrovo and Boquiren 2004; Mercy Corps 2005; Roggekamp 2004.

<sup>44</sup> SDC 2004, 2005a.

<sup>45</sup> Idrovo and Boquiren 2004; Laker-Ojok 2004; Sethna 2004.

## Example 20: Strengthening Value Chain Relationships

### SDCAsia, the Philippines

SDCAsia is helping poor people in remote rural communities to improve their livelihood by harvesting and semiprocessing an indigenous fruit called kaong (sweet palm), which is used in jams, ice cream, and sauces. SDCAsia uses the table below to set goals and track progress toward strengthening the two most important relationships in the value chain to perform the various functions needed to increase quality and quantity of production. Harvesters sell to a range of semiprocessors—farmer groups, individual businesses, and other individual harvesters themselves. The semiprocessors sell to community-based traders, who sell to buying agents of large-scale, urban processors. SDCAsia is strengthening these relationships in the five areas listed in the table.

#### Baseline, Current, and Future Picture of Relationships

	Semiprocessors and Community-Based Traders			Community-Based Traders and Buying Agents of Processors		
	Baseline	Current	Future	Baseline	Current	Future
Supplier and buyer Selection/procurement						
Information sharing / transparency						
Quality control/inspection						
Value-added services/collaboration and cooperation						
Basis of competition / offer to the market						

Note: SDCAsia uses this tool for market assessment, program management, and reporting.

For more information, see <http://www.sdccasia.ph> or <http://www.bdsknowledge.org> (search by SDCAsia and Philippines), or contact Marian Boquiren at [mb@sdccasia.ph](mailto:mb@sdccasia.ph).

Source: Idrovo and Boquiren 2004.

What are some of the strategies in use to strengthen market relationships, to create opportunities for aligning business interests in the value chain, and to encourage businesses to take advantage of them? Some interesting ones from recent projects include the following:

■ **Developing the right business model:**<sup>46</sup>

Sometimes, the challenges and barriers to doing business seem insurmountable by the target businesses in the value chain. As outsiders with broader experience and technical expertise, facilitators sometimes can identify innovative solutions, present them to both parties, and convince a few market leaders to try them out. For example, facilitators might introduce the concept of group guaranteed lending to input suppliers who are open to lending to small-scale farmers but want to reduce the risk of default.

■ **Improving quality and introducing standards in the value chain:** In many export oriented value chains, SEs need to improve quality and meet sector-specific quality, social, health, or environmental standards in order to sell to higher value markets. Development initiatives tackle this by raising awareness among value chain businesses and concerned agencies of the existence and importance of the standards, building in-country capacity for providing technical advice and certification services, and developing business models in the value chain to pay for these services. For example, SE associations may pool SE resources, or processors or exporters in the value chain may purchase the services and provide them to SE suppliers.

■ **Demonstration effect:**<sup>47</sup> In some instances, large-scale buyers want SE products but do not want to take the risk of placing orders with groups of rural producers who may not deliver on time or to quality specification. Some market facilitators work with one high-profile buyer as

they strengthen local capacity building systems. Rather than training a few producer groups themselves, they train local consultants, association leaders, and/or traders to consolidate orders and meet orders on time, to establish quality control standards and systems, and to build SE capacity to meet quality standards on time. The facilitators then spread awareness about the region as a reliable, quality source of products in order to attract other buyers.

■ **Buyer-supplier fora:**<sup>48</sup> Buyer-supplier fora spur the development of win-win relationships. They unveil the details of successful relationships, for example, when large-scale suppliers offer an enhanced package of goods and services to small-scale buyers. They spur competition among more powerful businesses in the supply chain to offer better deals to SEs. They can initiate both horizontal and vertical collaboration to identify and implement new solutions to weaknesses in the relationships.

■ **Incentives and pressure:** Sometimes entrenched, powerful businesses need a push to realize the potential of doing business differently, even when win-win solutions are available to them. This is often the case if the business owners are not very entrepreneurial; are closed to doing business with SEs due to ethnic, class, or other bias; or if they are risk averse. Some incentives include policies that require large businesses that implement government contracts to subcontract to SEs;<sup>49</sup> offering matching grant initiatives in which large firms investments in services to SE suppliers are subsidized;<sup>50</sup> and, using producers associations to go around the buyer or supplier as a competing market channel,<sup>51</sup> which might then spur the dominant channel to do business differently.

Since value chains vary so significantly, different strategies will be relevant depending on the particular opportunities and constraints each market presents.

<sup>46</sup> Laker-Ojok 2004.

<sup>47</sup> Idrovo and Boquiren 2004.

<sup>48</sup> Sethna 2004.

<sup>49</sup> Ibid.

<sup>50</sup> Emerging Markets Fund 2005b, 2005c, 2005d.

<sup>51</sup> Laker-Ojok 2004.



## Example 21: Strengthening Market Linkages

### Action for Enterprise and the Shea Subsector in Mali

Action for Enterprise (AFE), with USAID funding, is developing the shea subsector in Mali by improving access to export markets, which will ultimately benefit the rural women who harvest and process shea nuts. Shea butter is processed from nuts, which grow on indigenous trees in semiarid conditions. The majority of shea is consumed in Mali. Most exported shea is traded in kernel form and processed into butter by four lead industrial processors, mainly in Europe, who dominate this high-demand market. These buyers fill only 10 percent of their annual kernel requirements from Mali because of poor product quality, high transportation and border-crossing costs, and unreliable delivery.

The project team started by exploring the potential for exporting higher value shea butter, which included market research and development, shea butter quality assessment, and assessment of constraints to market penetration. The project then attempted to induce exporters to invest in production and supply-chain improvements that would result in a more marketable product. These activities included facilitating contact with international buyers, promoting Mali shea butter and suppliers via a website, building the capacity of exporters to respond to buyers with quotes and professional samples, and troubleshooting logistical (packaging and transportation) issues, many of which involved sharing costs with exporters and buyers.

In view of the comparatively poor quality of Mali's shea butter and high-cost logistics, the opportunities for exporting high-quality shea butter went mostly to neighboring countries, notably Ghana. However, opportunities for exporting high-quality shea kernels materialized through contact with European buyers and were developed as a means of promoting quality improvements to the raw material for shea butter and increases in rural incomes of shea kernel suppliers. In addition, exporters viewed investments to improving shea kernel quality as more manageable and less risky in view of the significance of the market opportunity.

As a result, AFE facilitated trade relations between a lead buyer and several shea kernel exporters. The project team worked with exporters to develop a quality improvement plan, which the buyer reviewed and commented on. AFE entered into agreements with exporters that clearly identified the role each party would play in improving quality.

### 3.2.5. Higher Outreach and Sustainability Using a More Systemic Approach to Value Chain Development

Some efforts to help value chains reach the poor are achieving higher outreach and sustainability by developing support markets to value chains,<sup>52</sup> rather than directly building the capacity of businesses in

the value chain. M4P frameworks and more recent value chain frameworks differentiate between the value chain, made up of the businesses that exchange goods to get product to markets, and support services and products—such as technology—that strengthen the value chain.<sup>53</sup> Some further identify and target commercial markets for business services and support products.<sup>54</sup> Although

<sup>52</sup> By this we mean applying BDS market development principles described in previous "BDS" Readers; Miehlabrad and McVay 2003a, 2003b, 2004.

<sup>53</sup> Ferrand et al. 2004; Lusby and Panlibuton 2004.

<sup>54</sup> <http://www.actionforenterprise.org>; USAID 2005a.

At this point, the project team helped exporters improve their supply chain by improving the linkages between exporters and their SE suppliers, and between SE suppliers and women shea gatherers. The project team helped exporters organize their suppliers, for example, by carving out territory for each one to cover. AFE developed training materials and trained exporters to use these materials in training their shea traders. Some topics included shea quality criteria, operational procedures for procuring and handling shea kernels, financing policies and arrangements, attracting shea gatherers, and communicating with and providing technical guidance to shea gatherers. The project also developed and cost-shared new types of promotional activities, such as radio spots to inform shea gatherers of the opportunity and quality concerns. Costs were kept low and techniques simple so that exporters could easily replicate the strategies once the project ended.

According to project management, building these linkages required steady attention to the expectations and issues of market players in order to coax the process forward in a sustainable manner. This meant finding a balance between too much and too little involvement. For example, when project staff learned that both the importer and the exporter were looking for communication from each other and not getting it, project staff coached each party to take the initiative to send an e-mail, rather than transmitting the information themselves. Although this coaching role takes longer than more direct involvement, it establishes more durable market linkages.

During the first season of project activity promoting better quality shea kernels, AFE facilitated US\$150,000 worth of exports in which three exporters, over seventy traders, and more than three thousand rural shea gatherers benefited.

For more information, see <http://www.actionforenterprise.org>.  
Source: Derks 2004.

support markets and value chain markets often overlap in practice, developing commercial support markets that strengthen the value chain offers avenues for increased outreach and for sustainability, as is demonstrated by several programs that maintain this distinction.<sup>55</sup> Often, especially when targeting the poor, these business services and support products end up being integrated, or embedded, in the value chain itself, rather than sold for a fee. Even then, recognition of the need for this enhanced package can help market facilitators open up opportunities to improve SE participation in value chains and thereby increase value chain competitiveness and performance.<sup>56</sup>

Since the advent of the BDS market development approach, SE development experts have

increasingly recognized the development value of strengthening market systems that provide support products and services to SEs, rather than delivering subsidized services to a small set of businesses.<sup>57</sup> And, in the last several years of the BDS Reader, many projects that combine subsector and/or value chain development and BDS market development have been documented. However, with the advent of new frameworks such as M4P and with the sudden popularity of value chain development, many new programs are emerging that do not recognize markets for support services and products. As a result, these new programs are tending to provide subsidized services to a few businesses in the value chain, rather than developing the market for those services.

<sup>55</sup> Mercy Corps 2004, 2005a; ATA 2005.

<sup>56</sup> MEDA 2005a, 2005b; Sethna, 2004.

<sup>57</sup> Miehlbradt and McVay 2004.

## Example 22: Developing the Guatemalan Market for Market Linkage and Product Development Services

### Aid to Artisans and AGEXPRONT, Guatemala

Action for Enterprise (AFE), with USAID funding, is developing the shea subsector in Mali by improving With support from USAID, Aid to Artisans has been working with the Guatemalan nontraditional exporters' association, AGEXPRONT, to increase employment and income in the hand-made products sector. In Guatemala, 10 percent of rural people are employed in craft production for domestic and export markets. Because traditional Guatemalan products have been on the market for some time, price points are low and markets are saturated; new designs are needed to increase local sales and attract new international buyers. Aid to Artisans is strengthening the Guatemalan craft value chain and the local market for product designs services in three ways:

4. **Building the capacity of Guatemalan product designers:** Aid to Artisans and AGEXPRONT help exporters identify and hire international export product designers. These designers in turn train and mentor Guatemalan designers, exporters, and NGOs through the product design and fulfillment process. In all, the project has trained seventeen local product design providers, including a handful of independent design consultants. After the project mentoring, some exporters have independently hired the design consultants to provide additional product development services.
5. **Strengthening embedded services in the value chain:** Aid to Artisans and AGEXPRONT are facilitating domestic and international market linkages and strengthening these linkages by supporting embedded services. For example, in the product development process, project staff demonstrate to exporters how to train and mentor suppliers to produce the new designs. In addition, Aid to Artisans staff work closely with AGEXPRONT staff to help exporters participate in and get the most from international trade shows, identify international buyers, and host buyer visits to Guatemala. They then mentor exporters through their initial product design, sales, and fulfillment processes, demonstrating how exporters can get information and services from buyers. For example, a hand-made-glass buyer, following a trip to Guatemala organized by AGEXPRONT, supplied raw materials and equipment to help establish a new production center in anticipation of regular, large orders. AGEXPRONT also facilitates local trade fairs to strengthen relationships among exporters, suppliers, and Guatemalan retailers.
6. **Building the capacity of AGEXPRONT:** During the life of the project, AGEXPRONT has increasingly taken on roles previously played by Aid to Artisans—for example, coordinating a booth at the New York International Gift Fair. AGEXPRONT's services in facilitating market deals are paying off for the association, which now charges a 2.5 percent service fee on sales brokered by the association.

During its second year, the project worked with eighty-two exporters, designers, NGOs, producer groups, and retailers to facilitate around \$580,000 in sales, benefiting almost nine thousand artisans. Although the project is only three years long, AGEXPRONT and the local design consultants are well positioned to continue to support the craft value chain in the long run.

For more information, see <http://www.aidtoartisans.org> and [http://www.export.com.gt/acercade/comisiones/Artesanias\\_en.aspx](http://www.export.com.gt/acercade/comisiones/Artesanias_en.aspx). Source: Aid to Artisans 2005.

Why are some organizations providing direct services to value chain businesses? What is the competing argument for taking a more systemic approach and developing support markets? Table 2, below, summarizes the debate.

<b>Table 2: How to Develop Value Chains</b>	
<b>Rational for Direct Value Chain Development</b>	<b>Counterargument for Strengthening Support Markets</b>
<p><b>Immediate results:</b> Some programs are pressed to produce results quickly, either due to a recent emergency or pressure to achieve program targets in a short time frame. They perceive that diving in and working directly with businesses in the value chain is the fastest way to get results.</p>	<p><b>Up-front investment in stimulating support markets is essential:</b> “There are no shortcuts to developing markets.”<sup>58</sup> The upfront investment in understanding markets and engaging businesses to deliver support services and products produces better results faster because the investment can pay off within the life of the project in terms of reaching more businesses.<sup>59</sup></p>
<p><b>Reaching the Poor where there is no market:</b> Some program designers fail to see the opportunities for service markets to develop in very weak markets serving very poor people. Some markets are so blocked by poor infrastructure, lack of services, low economic activity, and poverty that the very concept of developing markets seems ridiculous.</p>	<p><b>The poor are involved in weak markets:</b><sup>60</sup> Although markets serving the poor are often very weak, they usually exist. Many programs have demonstrated that even in very weak markets, serving the very poor, microenterprises and other community-based businesses can be engaged to sell support products and services to the poor. When these local markets are given an opportunity to grow in a sustainable manner, they can have substantial development impact. But, offering free services can easily destroy these fragile markets.</p>
<p><b>Engaging large-scale businesses:</b> Some programs offer large-scale businesses incentives in the form of free services and even financial subsidies to engage with SE producers. Sometimes, larger businesses are doing fine without SE producers and need some incentive to overcome the risks, costs, and social barriers to doing business with SEs, even when linking with SEs will benefit the large business.</p>	<p><b>Market-based solutions for engaging big business:</b> Although it can be challenging to engage large enterprises in doing business with the poor, the same logic applies to working with them as working with SEs. Awareness needs to be built, risks reduced, and incentives made clear before a business will purchase a service or engage in a new business opportunity. Subsidizing large-scale businesses distorts markets and creates dependency and unrealistic market conditions. It is unclear that the large-scale businesses who do not receive subsidies will copy the pattern, thus limiting outreach to those businesses involved directly in the program and providing them with a leg up in the market. In contrast, some programs are finding ways of building awareness and motivating large businesses to do business with SEs without direct subsidies and/or are gradually developing commercial markets for services that they may provide directly at the beginning of programs.<sup>61</sup> The “Bottom of the Pyramid”<sup>62</sup> movement illustrates how large corporations, on a global level, are recognizing the importance of doing business down market and are investing in this strategy without public subsidies.</p>

<sup>58</sup> IDE 2004a.

<sup>59</sup> Miehlbradt and McVay 2004.

<sup>60</sup> Frias and Trang 2004; MEDA 2004; Mercy Corps 2004, 2005a, 2005c, 2005g, n.d.; Miehlbradt and McVay 2004.

<sup>61</sup> ATA 2005; Boquiren 2004; ComMark Trust, 2004; Finkel n.d.

<sup>62</sup> Prahalad 2004.

**Table 3: Direct Value Chain Development vs. Developing Commercial Support Markets**

Direct Value Chain Development Programs—Missed Opportunities for a More Systemic Approach	More Systemic Solutions in Similar Programs—Developing Commercial Support Markets
<p><b>Using International Consultants to Build Exporter Capacity:</b> A donor has contracted a development organization to match international volunteer consultants with food processing firms seeking to improve their exporting capabilities. By improving processing and exporting services, the food processing value chain will be more competitive and benefits will accrue to smaller firms who supply inputs to the chain. However, the services go to a limited number of select firms and are not sustainable beyond the life of the project.</p>	<p><b>Using International Consultants to Build Exporter and Local Consultant Capacity:</b> In similar projects in Guatemala and Vietnam, development agencies have identified potential consultants in the country who could provide similar services as the international expert. The international experts are partnering with the local consultants on the donor funded jobs, mentoring them, and building the confidence of target firms to use locally based consultants for full fee in the future.</p>
<p><b>Cutting Out Support Market Development Due to Scarce Resources:</b> A development firm, under contract from an international donor, has designed a value chain development initiative targeting rural and poor areas. Using a participatory process, the firms selected several value chains with high market potential and significant involvement of poor producers. The plan is to increase value chain competitiveness and benefits to the poor in the value chain by strengthening linkages and the capacity of firms in the chain. The original design included a plan to strengthen support service markets by working with intermediaries, but this aspect of the project was canceled due to differing opinions about what is most cost-effective, pressure to produce results quickly, and lack of budget.</p>	<p><b>Focusing on Comprehensive Solutions in One Sector:</b> Similar projects with restricted budgets are focusing on one sector and developing both the value chain and its support markets at the same time. Where possible, projects support intermediary, private sector service providers. Where these do not exist, and the pressure to produce results is high, projects are providing direct services to firms in the chain, while simultaneously creating businesses or associations to perform this function in the long run. In other words, they are building in sustainable exit strategies. This is more labor intensive, so these projects focus on one value chain only.</p>
<p><b>Subsidies to Large Firms to Engage with SEs:</b> Two donor-funded projects, implemented by development contracting firms, subsidize large-scale businesses to strengthen their supply chain by incorporating small enterprise suppliers. One does this through matching grants in several target sectors. The other by issuing requests for proposals for specific types of activities in a target value chain and providing technical assistance during the project.</p>	<p><b>Market-Based Incentives for Large Firms to Engage SEs:</b> Some other programs encouraging large firms to increase or improve their purchasing from SEs are not subsidizing the large firms. Rather, they work with an interested lead firm, providing technical assistance in working out a viable model of subcontracting. At the same time, they identify and develop markets for support services to SE suppliers and large firm buyers. They then document these practices and spread awareness about them to other large firms in the industry, often through existing or new associations that the project helps form. Other large firms then copy the original model, accessing assistance through consultants and/or associations that have been assisted by the project.</p>

Finally, many agencies take a less systemic approach to value chain development due to lack of capacity. Because the programs are developing the value chain, which is a market system, it is sometimes easy to overlook support markets. As capacity building efforts have been limited, some program designers are not well trained in support market assessment and development and therefore miss these markets. As a result, where programs intend to take a systemic approach, but fall short due to lack of understanding, the solution lies in increased investments in developing clear frameworks and guidelines, communicating these, and building capacity around the skills needed to design and implement more systemic approaches. Table 3 illustrates how some programs, which present themselves as market-based, miss opportunities for more systemic change and how comparable programs are taking a more systemic approach by developing support markets.

There are several models for developing support markets that have been documented in past Readers, and they have continued to evolve this past year as organizations focus increasingly on developing value chains and support markets and on reaching the poor.<sup>63</sup> For example:

- **Services provided directly to SEs through associations, cooperatives, and informal networks:**<sup>64</sup> Some programs attempting to reach the very poor who cannot purchase services and who cannot attract the investment of large buyers are building the capacity of community-based groups and informal leaders—such as lead farmers—to build local SE capacity. The leaders of these community groups, associations, or clusters benefit from providing services by improvements to their businesses that result in the community as a whole being able to reach markets, from informal payments in kind, and the social capital of leading community development efforts.
- **Services and support products (technology) sold to SEs by other SEs:**<sup>65</sup> Some programs are

identifying better performing target SEs or other community-based entrepreneurs and training them to build SE capacity and sell business services and support products to them. This model works best when there is a tangible support product for the SEs to sell, such as irrigation equipment or vaccination services, or when the SE acts as a broker to a larger buyer. Because the costs of services are very low and have an immediate result on businesses' bottom line, very low-income SEs can purchase them.

- **Services sold to larger, better-off businesses that supply inputs to or buy from target SEs:**<sup>66</sup> It is sometimes possible to commercialize the services that programs typically provide to larger businesses in the value chain for free. For example, development programs often help large businesses to develop systems for building the capacity of and doing more business with small-scale suppliers. Although development programs often do this value chain development work for free, they are, in fact providing free supply chain management services to large enterprises. A more systemic approach might be to develop the market for supply chain management consulting services.

The challenge to donors, researchers and practitioners focused on making markets work for the poor and on value chain development is to take with them the lessons from developing support markets that have contributed to increased outreach and sustainability.

### 3.3. Cross-Sector Business Service Markets

While many programs are focusing on developing business service markets within value chains, as described above, a few continue to develop cross-sector business service markets. These are business services that are applicable to enterprises in a variety of sectors and subsectors. The aim of many of these programs is to improve the competitiveness

<sup>63</sup> Miehlbradt and McVay 2004.

<sup>64</sup> IDE 2004a.

<sup>65</sup> Ibid.; Mercy Corps 2004, 2005a.

<sup>66</sup> ATA 2005.



## Example 23: Strengthening Value Chain Support Markets

### MEDA and ECDI in Pakistan and Kenya BDS

MEDA and ECDI in Pakistan, with USAID funding, are helping home-based, rural women embroiderers link to urban wholesalers and retailers by developing a network of women intermediaries. The project is also developing a key support market for clothing design services by linking independent designers to the market intermediaries. The result is original embroidery designs based on traditional motifs that are responsive to current market tastes. The market intermediaries transfer the designs to the rural women embroiderers, who produce the new designs and receive a higher return on their labor.

SITE, an NGO supported by the USAID-funded Kenya BDS Program, is linking small-scale mango farmers with exporters. To develop the value chain, SITE organized farmers into groups and initiated relationships with six exporters. To develop the support market for related agricultural extension services, SITE trained five entrepreneurs to sell tree grafting, pesticide spraying, and technical advisory services to farmers.

For more information, see <http://www.meda.org> or <http://www.bdsknowledge.org> (search by MEDA and Pakistan) and <http://www.bdsknowledge.org> (search by Kenya BDS).

Sources: MEDA 2005a; Emerging Markets Group 2005a–d.

of small enterprises by increasing their use of valuable business services.<sup>67</sup> The agencies using this strategy see a vibrant business services market as an essential part of the enabling environment for private-sector growth and for the participation of small enterprises in private-sector growth.

Some of these programs are innovating interesting new business models for the delivery of cross-sector business services to medium, small, and even micro enterprises. One particular area of innovation is the integration of financial services with other business services. Practitioners have long understood that most enterprises need access to both financial services and other business services. However, within the development community there has traditionally been a separation between financial services and business development services. Several organizations are now working to bridge that gap by promoting links between providers of financial and business services. For example, in Indonesia, Swisscontact is promoting links between banks aiming to increase lending to SEs and business service providers. Their latest initiative is to launch a voucher program, financed by banks, where SEs can get a voucher for a business assessment service conducted by an independent business service provider. From this initiative, banks identify new SE lending customers and business service providers and SEs gain an initial introduction to one another.<sup>68</sup> Another innovative example comes from Financiera Solución, a finance company in Peru focused on microcredit. Financiera Solución offers free and voluntary business training as a bonus to its best clients. This increases client loyalty and helps good clients develop plans for business growth, for which they often need additional credit. A study of this model indicated that the benefits of the training outweighed the costs for both Financiera Solución and its clients.<sup>69</sup>

Several organizations are promoting innovative business models to increase SEs' access to and use of technology and information services.<sup>70</sup> For example, Hewlett Packard is renting solar-powered digital cameras and printers to women microentrepreneurs in Kuppam, India. The microentrepreneurs provide services to other businesses and individuals, such as taking photos for government identification cards.<sup>71</sup>

<sup>67</sup> GTZ 2005d; KATALYST 2004a.

<sup>68</sup> SC 2005.

<sup>69</sup> de Wildt 2004.

<sup>70</sup> GTZ 2005d.

<sup>71</sup> SEEP Network 2005a.

## Example 24: Developing Business Service Markets with a Clear Exit Strategy

### KATALYST, Bangladesh

KATALYST, implemented by Swisscontact and GTZ International Services and funded by DFID, SDC, and Sida, develops several cross-sector business service markets as part of a broader program in Bangladesh. A critical aspect of KATALYST's design and implementation process for each business service market is developing and pursuing a clear vision of a sustainably growing business service market supplying small enterprises with services that increase their competitiveness. For example, KATALYST is developing the marketing communication services sector in Bogra and surrounding areas.

KATALYST's vision for market change is this: Providers of marketing communication services in Bogra are organized, equipped, and proactive in serving SMEs with appropriate services. As a first step, KATALYST provided the impetus for over 350 service providers—representing ad firms, desktop publishing companies, press, newspaper (media), and artists—to come together under the umbrella of the Bogra Media Forum (BMF). This new organization is now taking the lead in developing the marketing communication services industry in Bogra with KATALYST in a supporting role. For example, KATALYST and BMF cooperated to produce and publish the first ever directory of more than three hundred marketing communications service providers in Bogra. BMF found the advertisers for the directory and paid for 40 percent of the production and publication costs.

BMF has developed a series of training modules tailored to address the skills and knowledge gaps of its members in the areas of communication design, packaging/die-cutting, graphic design, and service marketing. KATALYST's support was in product development and in promotion of the training packages among service providers in Bogra and fifteen other districts of North Bengal. BMF will sustain the training programs with training fees collected from participants. KATALYST notes that just two months after launch, BMF members could see the potential for the forum to generate additional business for them and were thus motivated to build the organization and its capacity to develop the marketing communication sector sustainably.

In 2005 BMF has worked to generate more business for its members through activities that include a trade fair in Bogra to showcase improved skills and service offers of BMF members targeting enterprises from fifteen surrounding districts; linkage facilitation between Bogra and other regions; seminars, workshops, and events aimed at SMEs and business leaders in generating service awareness as well as for networking with other regions. BMF is convinced that it can contribute significantly in gaining access to markets and updated technology for its members.

For more information, contact Manish Pandey, KATALYST, at [Manish.Pandey@swisscontact-bd.org](mailto:Manish.Pandey@swisscontact-bd.org), or see <http://www.katalystbd.com> or <http://www.bdsknowledge.org> (search by Swisscontact and Bangladesh).  
Source: KATALYST 2004b, 2005.

Even some traditionally cross-sector categories of activities, however, such as helping SEs gain access to financial and business services, are reorienting toward value chain development. In 2005 the SEEP Network launched a new Practitioner Learning Program called "Strategic Alliances for Financial

Services and Market Linkages in Rural Areas." Its purpose is to explore potential solutions that are based on strategic alliances with stakeholders in rural markets in order to increase access to finance for micro and small enterprises (including farmers), enabling them to invest in upgrading and/or to take



advantage of market opportunities.<sup>72</sup>

The stakeholders might be rural financial institutions, market development facilitators, support service providers, value chain businesses, and SEs, including farmers. In addition, this year GTZ reformed its general BDS market development initiative in Bangladesh to focus on developing support markets for the garment subsector.<sup>73</sup> Thus, although cross-sector support market programs continue, new types of approaches and initiatives are rare.

What can broader initiatives learn from those programs focused solely on business service markets? The most effective cross-sector business service programs have an explicit and clear sustainability strategy for the business service markets that they target. These programs take advantage of profit-seeking service providers who want to sell to SEs to help achieve program goals of helping SEs access services.<sup>74</sup> Perhaps because of the clear focus on business service markets, these programs pay close attention to who will perform and who will pay for the variety of activities needed to make a business service market vibrant in the long run.<sup>75</sup> This is in contrast to some programs focused on value chains that lack a clear vision for the sustainability of business service markets that support value chains.

### 3.4. Transitioning to Systemic Market Development

As more organizations adopt a systemic, market-based approach to development work, and to reaching the poor, donors and practitioners are faced with the challenge of changing the way their organizations work. How are development organizations going about changing their strategies, reorienting staff and programs to a market development approach? Although different sizes and types of organizations call for vastly different approaches, the following are some key activities that leading donors and practitioners are engaged in to refocus their organizations, staff, and programs on making markets work for the poor.

- **Integrated, participatory evaluation and strategic planning:**<sup>76</sup> Some organizations are looking back at how programs performed in the past, gathering lessons learned, synthesizing them with information about emerging strategies, and using this information to develop organization-specific strategies laying out the new directions. This type of planning engages staff in the analysis of past programs and encourages their involvement in the new strategy by recognizing positive lessons from past programming as new concepts are introduced.
- **Systematic communications strategy:**<sup>77</sup> Some organizations are developing explicit, professional communications strategies to reorient large numbers of different stakeholders to their new strategy. These strategies, developed by or with input from communications specialists, identify target audiences, critical messages, appropriate channels of communications, and relevant materials and tools. Target audiences include a wide range of

<sup>72</sup> Ibid. 2005b.

<sup>73</sup> GTZ 2005e, 2005f.

<sup>74</sup> Lavelle and Sytek 2005.

<sup>75</sup> For more information on sustainability frameworks for BDS markets, see Robert Hitchins, "Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions," SED Issue paper no. 5, Swiss Agency for Development and Cooperation, June 2000, available at <http://www.bdsknowledge.org>.

<sup>76</sup> Albu and Griffith 2005; McVay and Ranneklev 2005.

<sup>77</sup> ADB 2005; Ramirez and Quarry 2004.

stakeholders such as staff of the program, clients, the general public, policy makers, and partners.

■ **Retooling:**<sup>78</sup> Most organizations shifting their approach to a more market-based effort need to retool around a new set of skills. At the field level, this often means letting go of staff with direct delivery or training experience and recruiting staff with a more sophisticated market analysis and partnership building skill set. Often, staff formerly involved in direct service delivery move into businesses serving the value chain. Others continue with the program by learning new skills.

■ **Building new partnerships:**<sup>79</sup> Many organizations have longstanding partnerships with NGOs and other community groups. Some attempt to continue working with these partners, reorienting them to a more market-based approach. However, some organizations have found significant challenges with this approach as their NGO partners remain entrenched in subsidized activities and do not have either the skill set or the market orientation to transition to more sustainable approaches. These organizations are finding it necessary to work with a different set of partners, privately owned businesses.

■ **Capacity building, training, and mentoring:**<sup>80</sup> Many organizations making the transition to a more market-based strategy need to build internal and partner capacity through training and mentoring. Different kinds of capacity building are needed at different levels. For example, program planners, managers, and evaluators need training in broad market development frameworks and processes. In contrast, field level staff—in addition to gaining an understanding of the overall development philosophy of making markets work for the poor—often need a more specific understanding of target markets and skills in negotiating and deal making.

■ **Participating in a field of practice:** Many organizations in transition are active members of a community of practice that promotes learning, dialogue, common terms, and lessons learned. Some communities are global—for example, BDS market development, rural value chain development, the agricultural extensionist network, and now the M4P movement.<sup>81</sup> Some center around a particular group, institution, or association, while others are less institutionalized. Increasingly, communities of practice focused on market development are emerging at a country or regional level.<sup>82</sup> These networks play a critical role in galvanizing and building capacity around new strategies. In addition to peer-to-peer exchange, members often compete for a leadership role in these networks. In the process they strive for better practice and are highly motivated to share their learning with others so that they are seen, primarily by funders, as leaders in the field.

While these activities are a critical part of a successful change process, they are more successful when approached systematically—rather than ad hoc—with sufficient funding and technical resources and in an institutional atmosphere of open, participatory learning.<sup>83</sup>

One key element in many successful transitions is the visionary and often daring leadership of change agents. Introducing market-based strategies requires not only rational, strong communication and well-structured change processes, but also individuals with a vision and the determination to win over and/or push out of the way resisters to change. There are two overlapping sources of resistance to taking a market-based approach:

<sup>78</sup> Bista 2004b; McVay and Rannekleiv 2005.

<sup>79</sup> IDE 2004c; Emerging Markets Group 2005c.

<sup>80</sup> Bista 2004b; McVay and Rannekleiv 2005.

<sup>81</sup> See the appendix for recommended websites that host relevant global communities of practice.

<sup>82</sup> MDG 2005a and 2005b; <http://www.markets4poor.org>.

<sup>83</sup> McVay and Rannekleiv 2005.

- Strong beliefs that markets are inherently unequal and the perception that proponents of making markets work for the poor care more about economic growth than about the poor. This resistance is hard to overcome because people mistrust the message and the messenger and may not be open to looking at the facts, and/or may require levels of proof that are impractical in development work.
- Individual, territorial interest: Some resisters are threatened by new approaches, fearing loss of their jobs, status, or reputations. New approaches require new skills, critiquing past initiatives, and restructuring of organizations and budgets. These shifts can be personally threatening to people not willing or able to make the shift. This resistance is difficult to overcome because few professionals in development work admit to this being the primary reason for resistance, despite its prevalence.

To overcome these areas of resistance, change agents try to create a safe atmosphere of learning and trust in which mistakes are viewed as risks that generate learning and change of opinion is respected. This works if the change agent is an organizational leader. Another tactic is to assemble an overwhelming amount of evidence to support the change and take advantage of every opportunity to present this evidence to less resistant stakeholders so that the decision makers are ultimately swayed. Often, change agents are able to garner resources for pilot initiatives and to participate in international seminars and trainings. Ultimately, change agents adapt some kind of written market-based strategy for their organization to convince others of the relevance of market-based solutions to particular organizational missions and operating principles. These strategies are in evolution, and practitioners are beginning to more explicitly share their change processes with others.<sup>84</sup>

## Example 25: Transitioning to Making Markets Work for the Poor

### MEDA-Global, IDE International, GTZ-PROGRESS in Bangladesh, MPDPIP in India, TTO in South Africa

In transitioning to an M4P approach, different organizations are going through different strategic shifts, depending on their original orientation and the aspects of M4P that are new to them. Yet, similar principles remain in the transition process.

#### MEDA-Global

The Mennonite Economic Development Association (MEDA) shifted from a market-driven, social enterprise approach in which they invested in marketing companies that sell SE products, to a Production and Market Linkages strategy that develops value-chain and business support markets that help SEs reach markets and respond to market demand with appropriate products. In so doing, they engaged in a learning process with international staff and global experts, entered new types of partnerships, invested in capacity building within MEDA and with those partners, participated in a SEEP action-learning program, and cultivated a leadership role in relevant communities of practice.

For more information, see <http://www.meda.org>.  
Source: McVay and Ranneklev 2005.



<sup>84</sup> Ibid.

### IDE International

International Development Enterprises (IDE) shifted from a strategy of developing irrigation markets targeted to SEs to a holistic approach PRISM (Poverty Reduction through Irrigation and Smallholder Markets) focused on poverty reduction. For example, rather than focusing narrowly on a key input—such as irrigation technology—IDE now focuses on helping farmers grow and market high value horticultural crops. In addition to irrigation, IDE develops support markets for horticultural inputs and technical advice for growing crops in high demand in local and regional markets, and facilitates market linkages so that farmers can reach more remunerative markets. In making this transition, IDE invested heavily in impact assessment of former projects, as well as market assessments and baseline surveys to document impact in new initiatives.

They engaged global staff to develop the new approach, termed PRISM. IDE built capacity by participating in a SEEP action-learning program and in several BDS and value-chain trainings and then developed their own internal training program specific to the PRISM approach. IDE built partnerships, increased analytical market skills of staff, and built capacity as a center of excellence.

For more information, see <http://www.ideorg.org> and <http://www.ide-india.org>.



### GTZ-PROGRESS in Bangladesh

The PROGRESS initiative is helping GTZ and Ministry of Commerce transition from a general business service market development approach to a value-chain development effort. The goal is to help small and medium enterprises in the garment sector survive and grow in the face of increased global competition coming about due to the expiry of the global quota system (the Multi-Fibre Agreement). The project will stimulate five business services markets to serve the garment sector: business management services, technical skill development, design and product development, information services and social and environmental standards and certification services. In addition, it will seek to facilitate improvements in the enabling environment and to strengthen donor cooperation. One element of making the change included transitioning away from former partners in a sustainable manner. For example, GTZ has supported formerly subsidized business management trainers (in the CEFE system) to become more market driven by training them in customizing their training to specific target markets, and GTZ has supported the development of BS-NET, an association of business service providers, to continue to support that business services market.

For more information, see [www.bdsknowledge.org](http://www.bdsknowledge.org) (search by PROGRESS).

Sources: GTZ 2005e, 2005f.





### MPDPIP in India

The Madhya Pradesh District Poverty Initiatives Project (MPDPIP), a government project in India with funding from the World Bank, hired the consulting services of the Marketing and Research Team (MART) to significantly improve its poverty reduction work using market-based approaches. The MART team reoriented the MPDPIP from a general, grant-making community development program to a market-based, 3M strategy—micro-finance, micro-markets, and micro-planning. The MART team restructured the MPDPIP staff to simultaneously decentralize and empower local teams while forming technical teams in three selected thrust sectors—agriculture, livestock, and trade. These teams developed sector strategies and support services to help target poor families to generate income by reaching markets. MART's transition approach involved significant orientation and training in demand-driven and market-based approaches, new partnerships with research and extension agencies, and more intimate contact and orientation with communities to gain trust and drive home a demand-driven and market-orientation.

For more information see <http://www.martrural.com>.  
Sources: GTZ 2005e, 2005f; MART 2005.



### Triple Trust Organization (TTO) in South Africa

TTO reoriented itself over a two-year period from delivering training directly to the poor to making markets work for the poor. They now play a clear facilitation role to develop specific markets—retail, livestock, and agribusiness, so that they pull the poor in. In their process, they invested heavily in training, participated in international action learning initiatives, significantly reduced staff, and engaged in an internal, participatory planning process that clearly documents their new strategy.

For more information, see <http://www.tto.org.za>.  
Source: TTO 2005.

## 3.5. Performance Measurement and Impact Assessment

The global meeting to review progress toward the Millennium Development Goals, scheduled for September 2005, is pushing donors and practitioners to measure their impact more closely, particularly progress toward poverty eradication. Currently, there are three main approaches to assessing a program's impact on poverty:<sup>85</sup>

1. Those aiming to prove program impact on specific clients using econometric models.
2. Qualitative and often participatory methods that aim to capture the complexity of development and the multidimensions of poverty while linking impact assessment with improving practice in programs.
3. Those aiming to establish plausible links between individual donor interventions and changes observed at the national level.

<sup>85</sup> Späth 2004.

Most innovations in impact assessment in the last year are taking place in the second area: qualitative and participatory methods. The appendix contains a list of websites for more information.

### 3.5.1. Learning from Different Disciplines

In monitoring and evaluation, as in other program areas, donors and practitioners in different fields are learning from each other.<sup>86</sup> A number of common issues practitioners in many fields are struggling with are the following:

- **Measuring program performance at different levels:** Most market development programs are trying to measure changes at different levels: at the macrolevel, for example, the regulatory environment and fiscal incentives; the mesolevel, support markets and market institutions; and the microlevel, SEs and households. Measuring change at these different levels presents methodological and efficiency challenges.<sup>87</sup>
- **Establishing causal chains:** Many evaluation experts emphasize that clearly laying out the expected chain of intended results from project activities through to final impacts is critical. Yet, many donors and practitioners struggle with the increasing length of causal chains as programs move from directly working with enterprises to targeting markets, market institutions, and the enabling environment.
- **Linking project activities with indirect impacts:** The activities of programs are increasingly at the macro- and mesolevel. But donors and practitioners seek impact at the microlevel. This makes it more and more difficult to establish attribution, even plausible attribution between program activities and ultimate impacts.<sup>88</sup>

Donors, researchers, and practitioners from a range of fields are beginning to gain synergy from facing these challenges together.

**Key Question:**  
**Can a program's impact on poverty be proven with rigorous scientific methods?**  
*Experts, donors, and practitioners acknowledge that it is difficult to prove that individual programs reduce poverty. Some maintain it can be done when (1) the poverty line is clearly established; (2) programs elaborate a causal chain from program activities to changes in the poverty status of households; and (3) programs use experimental or quasi-experimental evaluation designs that make use of control groups. Other experts, donors, and practitioners maintain that it is not possible to implement a truly scientific study in the real world of development work. Getting valid data is too difficult. Should resources be invested in trying to prove that particular strategies reduce poverty?*

The field of microfinance, in particular, has some lessons learned about assessing poverty impacts that may be useful for M4P and other private-sector development programs:<sup>89</sup>

- Using a multidimensional approach to assess overarching development goals
- Using both quantitative and qualitative methods for assessing impact
- Adapting the instruments to the regional and local context
- Looking for results not only in a narrow straightforward causal chain of impact but also elsewhere
- Staying pragmatic and realistic with regard to what can actually be assessed

Applying these lessons to market development programs has increased the effectiveness of impact assessment.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid.

<sup>88</sup> Neubert 2004.

<sup>89</sup> Späth 2004.

### 3.5.2. Measuring the Many Dimensions of Poverty

Poverty is multidimensional. It involves more than deprivation of income but also a lack of assets, services, freedom, and security. Some experts argue that one-dimensional impact assessment focused only on income poverty is inadequate to understanding the effects of programs on poverty. Approaches that enable evaluators to describe a more comprehensive and socially complex picture of program impact and its related processes are likely to be more helpful to program managers in improving programs.<sup>90</sup>

Qualitative and participatory methods are more likely to capture a complex picture than quantitative tools. Quantitative information may show what changes have taken place but usually do not explain why or how. Qualitative information gathering relies on methods such as in-depth interviews, participant observations, case studies, and focus group discussions. This strategy aims to provide an interpretation of the processes involved in program initiatives and the impacts that have a high level of plausibility. Participatory assessment methods involve stakeholders throughout the design of the M&E study or system, the information gathering, and the data analysis. Participatory assessment methods often aim to capture the complex webs of reactions that lead to changes within households, communities, economies, etc. Participant involvement seems to enhance the use of information to create more impact.

In order to assess the multiple dimensions of program impact, evaluations are integrating different approaches to impact assessment. No one methodology is right for every program. Rather, tailoring the approach to the program goals and context as well as the objectives of the assessment will lead to more useful assessment result. At the same time, this raises the challenge of managing the cost and complexity of program evaluations.<sup>91</sup>

### Example 26: Measuring the Many Dimensions of Poverty

#### UNIDO and GTZ

One innovation in impact assessment comes from Nadvi and Barrientos's (2004) study for UNIDO, which seeks to understand the effects of industrial clusters on poverty reduction. Their approach combines value-chain mapping and a capabilities approach, focused on understanding the capabilities of the poor. It is partly quantitative and partly qualitative and participatory and aims at understanding both economic and social aspects of a program's impact on poverty. Investigating the poverty level of different groups within value chain maps helps identify poverty nodes where poorer groups are located within a cluster. Further disaggregation facilitates poverty impact assessment of different categories of firms and workers and identifies differences in poverty impacts based on gender, ethnicity and religion. This helps managers to understand how a program is affecting different groups of poor people and to determine how the program might be adjusted to reach specific groups that may not yet be benefiting from it.

Another innovation, from GTZ is MAPP (Method for Impact Assessment of Poverty Alleviation Projects). MAPP emphasizes qualitative and participatory methods and draws on participatory rapid appraisal. The main information-gathering technique is workshops with representatives of different stakeholder groups, during which participants discuss the extent to which planned program results have actually taken place. MAPP aims to assess if poverty-reducing processes actually occurred by understanding the perspectives and behavior changes of those in the causal chain, from program activities to poverty alleviation.

For more information, see <http://www.unido.org/doc/24736> and <http://www.die-gdi.de> (search for Briefing Paper No. 4/2004).

Sources: Nadvi and Barrientos 2004; Neubert 2004; SDC 2005c.

<sup>90</sup> Ibid.; Reinprecht 2004.

<sup>91</sup> Späth 2004.



### 3.5.3. Monitoring Core and Support Markets

Leading value chain development programs develop the core value chain and related support markets. Available evidence indicates that those programs, which include both core and support markets within their monitoring and evaluations, are more effectively developing support markets than those that include only the core market. This may be

because those that include support markets in their monitoring and evaluation systems focus on this aspect more rigorously in design and implementation as well. However, it seems likely that including support markets within monitoring and evaluation systems also holds program managers accountable for developing support markets and helps prevent them from slipping into providing support products and services directly to value chain players.

## Example 27: M&E of Both Core and Support Markets

### IDE PRISM in India and Nepal

IDE has developed an approach called PRISM (Poverty Reduction through Irrigation and Smallholder Markets) that aims to help smallholder farmers integrate effectively into markets for high-value agricultural commodities. Rigorous and management-focused monitoring and evaluation are a critical component of the PRISM methodology. One key mechanism that IDE uses to achieve this aim is the development of support markets for core agricultural markets. These support markets may include, depending on the situation, markets for irrigation, information, agricultural extension services, inputs, transportation, storage, etc. In India and Nepal, IDE is implementing PRISM in projects supported by USAID that focus on horticultural value chains. These projects monitor changes in horticultural markets and the target group's participation in those markets, as well as changes in relevant support markets.

For example, the project in Nepal develops commercial support markets for irrigation equipment, pest control services, information, technical advice, and agricultural training. These support products and services are provided by irrigation equipment manufacturers, dealers and installers, agri-input dealers, vegetable traders, and lead farmers, some of whom also supply seeds and fertilizers. Support product/service providers often bundle several products and/or services together. Approaching three years, the project has reached 7,097 smallholder farmers through 839 commercial support product and service providers. The tables below show IDE Nepal's monitoring and evaluation data from 2004, as well as how IDE reports changes both in horticultural markets and in support markets.



### Horticultural Value Chain Support Market Providers

Support Market Providers	Number of Providers	Average Annual Sales (\$)	Average Net Annual Income (\$)
Lead farmers	333	479	386
Agro-vets	91	10,653	1,024
Vegetable traders	163	8,592	918
Installers/masons	224	146	146
Treadle pump manufacturers / Drip irrigation assemblers	2	2,3275	4,057
Treadle pump/drip irrigation dealers	25	13,300	998
<b>Total and weighted averages</b>	<b>839</b>	<b>3,510</b>	<b>522</b>

### Smallholder Farmers in Horticultural Value Chains Annual Sales and Income

	Baseline	2 Years Post Intervention	% Change
Farmers	72	72	0
Total sales quantity	58,389 kg	130,941 kg	+124
Total sales volume	\$8,782	\$24,289	+177
Total cost of materials	\$1,358	\$2,389	+75
Total cost of labor	\$1,933	\$3,074	+59
Total net income	\$5,492	\$18,833	+243
Average net income/farmer	\$76	\$262	+345

For more information, see <http://www.ideorg.org> or <http://www.bdsknowledge.org> (search by IDE), or email Bhimsen Gurung, IDE, at [bhimsen\\_simi@clicknepal.com](mailto:bhimsen_simi@clicknepal.com) or [bhimseng@yahoo.com](mailto:bhimseng@yahoo.com).

Source: Magistro et al. 2004.

### **3.5.4. Connecting Market Assessment, Design, Implementation, Monitoring, and Impact Assessment**

Effective program managers are recognizing that market assessment, program design, implementation, monitoring, and impact assessment are interlinked. Market development programs are increasingly designed with considerable flexibility in implementation strategies but with a greater focus on end results, such as numbers of people reached in the target group and indicators of core market development. So, while market assessments and evaluations are placing more emphasis on qualitative and participatory tools, many programs continue to gather information on a core set of quantitative indicators.

Program managers make decisions regularly about which markets to address, which partners to work with, and what interventions to use. To effectively steer these projects, program managers need regular information both on markets and on the extent to which and how a program is affecting markets and target groups. Market assessment can provide some baseline information from which to judge changes in markets. Integrating systematic quantitative and qualitative information gathering into the day-to-day business of implementing projects provides regular information and often reduces the burden of gathering information during the final evaluation. And, impact assessment is most effective when tailored to the market context and program design. A holistic monitoring and evaluation system, integrated with program design, implementation, and evaluation can contribute to overall program effectiveness.

#### **Example 28: Linking Monitoring and Evaluation with Market Assessment, Project Design, and Implementation**

##### **USAID Kenya BDS**

The USAID Kenya BDS project implemented by the Emerging Markets Group integrates regular information collection mechanisms into project implementation. Kenya BDS aims to increase growth and income among rural micro and small enterprises through increased access to markets, as well as business services to compete in those markets. The project follows a subsector-based approach and focuses on overcoming market constraints and inefficiencies. It is a flexible project in which expected results are defined (see table below), as is the general approach, but the project management has the leeway to determine which markets to enter, which support markets to focus on, and what interventions to use. Currently, Kenya BDS works in the tree fruits subsector with a focus on avocado, passion, and mango fruits, as well as the Lake Victoria fish subsector, with a focus on Nile perch, tilapia, and omena.

Kenya BDS works in a cycle of eight steps: (1) identify and conduct subsector selection; (2) conduct value-chain analysis to identify constraints to growth and service gaps; (3) identify and define appropriate support products and services to address constraints; (4) conduct assessments of identified support markets; (5) design support market interventions; (6) conduct a baseline survey for the subsector; (7) tender and award market facilitation interventions; and (8) apply market-oriented performance measurement. Kenya BDS uses a standard set of monitoring and evaluation indicators program-wide as well as customized indicators for each intervention. This allows the program to measure overall progress as well as scrutinize the processes by which individual interventions are achieving change. On a monthly basis, market facilitators contracted by Kenya BDS gather data from businesses in the field. This data is checked and aggregated by Kenya BDS and verified through random spot checks in the field. The data feeds into quarterly reports, which provide information for decision making and serve as a vehicle for communication between USAID and Emerging Markets Group. The table below provides a brief summary of results after 2.5 years of implementation.

### Kenya BDS Results

Indicators	Yr 3 Qtr 3 Results	Yr 3 Total Targets	% Achieved to Date
Total number of MSEs accessing commercial business services	30,073	27,500	109
Total number of support market providers participating in the program target areas	569	215	265
Total number of MSE producers linked with the commercial market	6,583	10,000	66

For more information, see [www.kenyabds.com](http://www.kenyabds.com) or <http://www.bdsknowledge.org> (search by Kenya BDS) or email David Knopp, Emerging Markets Group, at [david@kenyabds.com](mailto:david@kenyabds.com).

Sources: Emerging Markets Groups 2005b, 2005c, 2005d.

## 4. Reaching the Very Poor and Vulnerable

Integrating the poorest and most vulnerable groups into markets on beneficial terms remains a significant challenge to those using the M4P approach. In the last year, experts, donors, and practitioners have continued to try to adapt and apply market development principles to various marginalized groups, including the rural poor, particularly smallholder farmers, communities affected by disaster or conflict, and the entrenched poor such as very low-income women and HIV/AIDS affected families. This chapter describes some of the efforts of programs to reach the poor through specific markets and targeting specific groups of poor people, often in particularly challenging circumstances. The chapter reviews experience and innovations in agricultural markets and markets disrupted by disaster or conflict as well as efforts to integrate the entrenched poor into markets. The application of market-based approaches is newer in these activities, and much of the research concludes with a recommendation for action research to further test promising strategies for helping the very poor and vulnerable access the benefits of market participation.

### 4.1. Stimulating Agricultural Support Markets to Work for the Poor

Agriculture is increasingly recognized as a critical area for development in order to reduce poverty globally. Poverty is concentrated in the agricultural sector and among small-scale farmers. The United Nations Millennium Project Task Force on Hunger estimates that half of the 842 million malnourished people live in smallholder farming households, and

one-tenth are pastoralists, fisherfolk, and forest users.<sup>1</sup> And the Food and Agriculture Organization estimates that 64 percent of the population in Africa, where global poverty is concentrated, are directly involved with agriculture as their primary source of income and livelihood.<sup>2</sup>

Because poverty is concentrated in rural farming communities, many development agencies see agricultural development as a key strategy in targeting the poor.<sup>3</sup> For example, the World Bank concludes that improvements in smallholder farming are linked to reductions in rural poverty and inequality not only because of the direct impact on farmers but also because of multiplier effects in the rural nonfarm economy.<sup>4</sup> In addition, many programs incorporating SEs into value chains are focusing on agricultural markets in which rural SEs and the rural poor are concentrated.<sup>5</sup> As many agencies focus on agricultural development in order to reach the Millennium Development Goals of poverty eradication, they are seeking new approaches to the age-old challenge of helping smallholder producers gain a better livelihood from the land.

The emerging trend in agricultural development is to integrate small-scale farmers into productive market systems in ways that benefit the poor, using a value-chain approach. In decades past, much agricultural development work focused on reducing poverty by increasing food security and, hence, increasing production of major food commodities. Recent strategies take markets and the cash economy into higher consideration in poverty alleviation efforts. They recognize that the poor need income in order to build assets (animals, land,

<sup>1</sup> As quoted in Best, Ferris, and Schiavone 2005.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.; Hellin, Griffith, and Albu 2005a.

<sup>4</sup> As quoted in Hellin, Griffith, and Albu 2005a.

<sup>5</sup> Lusby 2004; IDE 2004a, 2004b; MEDA 2003, 2005; Traidcraft 2005b; Emerging Markets Group 2005c.

housing, and education) and purchase key goods and services (food, health services, water, and sanitation) that improve their livelihood. Agricultural development experts also recognize that the poor are often in disadvantaged market positions, which limits their income. Thus, agricultural development experts are examining how the poor can participate in market systems that help reduce the cost of services, increase access to markets, and thus increase incomes.<sup>6</sup> They conclude that value-chain approaches are most effective.

Due to the importance of agriculture, this Reader focuses on agricultural and grocery markets throughout. The global trends presented in Chapter 2 and the lessons on value-chain development presented in Chapter 3 are also relevant to and in great part based on agriculture development experience. This section highlights some of the challenges in delivering sustainable support services to businesses in agricultural value chains.

#### ***4.1.1. Agricultural Extension Goes to Market—From Ag-Extension to Value Chain Development with More Specific Services***

The first trend in agricultural development worth noting is somewhat of a false start: the drive for sustainable agricultural extension services. This effort is focused on how to make existing general agricultural extension services more sellable or less costly. Strategies fall into several categories.

- **Supply-side subsidies:** In this traditional model, government or NGO extension agencies provide services directly to farmers. The recent innovation lies in attempts to charge partial fees in order to be more farmer responsive and/or in contracting local governments to provide services, assuming local governments can more easily tailor their services to local farmer needs.
- **Demand-side financing:** These are essentially voucher programs in which government agencies issue coupons or vouchers to farmers who can choose services from a range of certified providers. The early experiments in this strategy

are coupled with significant capacity building of a range of suppliers—government, NGO, and private sector.

- **Contracting out:** In this strategy, governments contract private firms or NGOs to provide agricultural extension services. These initiatives are often coupled with the introduction of fees, and effective contracts are results focused rather than activity focused.

These innovations seem to contribute to more farmer-responsive services and cost savings, but sustainability remains elusive.<sup>7</sup> Rather, agricultural development practitioners are discovering that sustainable agricultural services are better delivered as part of a systemic, value-chain development initiative and that these end up being substantially different services delivered by different providers. Rather than starting with existing services and attempting to sell them to the poor, more sustainable initiatives start with the market for products that the poor are attempting to reach and design services to help the poor reach these markets. These more sustainable initiatives then support private-sector providers to sell highly demanded services to farmers, or to deliver agricultural extension services as part of a comprehensive package with input supply and/or crop purchasing. Often characterized as “encouraging the private sector” to provide agricultural extension, there are at least four strategies evolving in this area<sup>8</sup>:

- **Alternative suppliers:** Capacity building of private-sector suppliers, often coupled with temporary vouchers, to stimulate demand and sell services for a fee. This often involves identifying and training low-cost alternative suppliers such as paravets and individuals formerly playing a volunteer role as lead farmers.
- **Contract farming:** Building the capacity of buyers to provide extension services to SE suppliers for products grown for higher value markets, for example organic produce.
- **Enhanced input supply:** Building the capacity of input suppliers to provide production advice and

<sup>6</sup> Best, Ferris, and Schiavone 2005; Hellin, Griffith, and Albu 2005.

<sup>7</sup> Chapman and Tripp 2003; Katz 2002.

<sup>8</sup> Ibid.



## Example 29: Commercial Agricultural Extension that Reaches the Poor

### Practical Action in Peru

Practical Action (formerly Intermediate Technology Development Group, ITDG) has worked since 1997 in remote areas of the Andes in Peru to develop the market for agricultural and livestock extension services that reach the rural poor. Neither public nor private extension systems have successfully reached the remote mountain areas of the former Incan Empire, where resource-poor farmers struggle against physical isolation, inadequate access to resources, and a climate so extreme it can bring drought, floods, frost, and hail all within one growing season. In this context, Practical Action has revived an ancient tradition of the *Kamayoq*, a technical adviser on weather and crops. Practical Action has established Kamayoq training centers offering foundational training and continuing information and support such as refresher courses and a radio program to build technical capacity of these community-based consultants. The Kamayoq earn a living selling inputs, such as veterinary products, and providing technical advice, which farmers pay for in cash and kind. To date the center has trained 140 Kamayoq, who have served three thousand farming families.

The program decided to target, among several subsectors, the dairy market because it offered low-risk opportunities with the potential for immediate returns. Demand for milk was sufficient to absorb more supply, and farmers were already familiar with dairy production. Their challenge was high disease and mortality rates and low yields. Practical Action worked with Kamayoqs and farmers to develop appropriate and affordable ways to improve production, and developed a package of customized products and services that the Kamayoqs could sell to dairy farmers. These included feeding regimes and supplies of food supplements, milking techniques, udder care and hygiene, and dosing for parasites. Evidence of positive impact on the farming community is illustrated by these reported results from dairy farmers:

- 98 percent of cow owners dosing for parasites; 80 percent of cow owners reporting that mastitis is now under control; average daily milk production increased from six to nine liters/day
- Monthly milk sales increased by 39 percent
- An estimated average increase in income among participating farmers of 15 percent

The Kamayoqs are also working together in loose networks and, among other activities, reviving and testing old herbal remedies for disease and pests. This model illustrates how, even in very weak rural markets, it is possible to stimulate market systems for commercial services that support the core value chain. Funders include CAFOD, Castilla de la Mancha, INCAGRO, Clothworkers Foundation, and the Japanese Embassy.

For more information, contact Alison Griffith, Practical Action, at [alison.griffith@practicalaction.org.uk](mailto:alison.griffith@practicalaction.org.uk) or Daniel Rodriguez, Practical Action, [danielr@itdg.org.pe](mailto:danielr@itdg.org.pe), or visit <http://www.practicalaction.org>.

Source: Griffith and Rodriguez 2005.

other services, building the cost of that advice into the cost of inputs.

- **Building the capacity of producer associations** to be a provider in any of the above scenarios.

When agricultural extension services are reconceived as part of a specific market system, they are more likely to be sustainable.

As it turns out, the services themselves—especially those that farmers buy—are more specific to particular crops or animals than many traditional



agricultural extension services.<sup>9</sup> They are also value-added in that they have a direct impact on lowering cost or increasing productivity or sales. And, the services are identified and delivered as part of a value-chain development initiative.

#### **4.1.2. Striving for Quality Standards: Meeting Traceability, Quality Control, Social Certification, and Other Quality Standards**

As SEs in agriculture and other sectors attempt to compete in global markets, they are faced with the challenge of meeting a range of quality standards.<sup>10</sup> Development initiatives helping SEs compete in global markets face the challenge of finding sustainable ways to deliver services that help SEs reach required standards. Agricultural development experts have made progress in introducing into the value chain some systems for product traceability, recording pesticide and fertilizer application, grading, and organic certification. To reach higher outreach and sustainability, some innovative new programs are attempting to commercialize and develop independent markets for these types of services.

What lessons have agricultural development initiatives learned about introducing systems that improve quality and help SEs meet market standards? Systemic agricultural development initiatives work with large-scale buyers and associations of small-scale farmers that purchase crops to introduce standards as part of the purchasing agreement. For example, in meeting agrochemical traceability standards, large-scale buyers or associations require farmers to use a specific system for tracking produce to specific land and to record the amounts and dates of agrochemical applications. In some cases, buyers hire field staff to establish these systems on farms and to train farmers to apply agrochemicals according to a rigid schedule and to record their activities. In other cases, buyers' field staff apply the agrochemicals and keep the records themselves. In

either case, these staff also monitor produce for disease, pests, or other issues and provide advice and services. Farmers are not charged for these services. The buyer covers their cost through the product markup. They provide them only to farmers who agree to sell to them, often at a prearranged price. Buyers are motivated to provide good services and farmers are motivated to adhere to the system because both are invested in meeting customer demand.<sup>11</sup>

One key challenge with these systems is encouraging farmers to keep their contracts; another, perhaps related, is to ensure that farmers are receiving sufficient incentive to keep their contracts and that farmers perceive of the contracts as fair. Some value-chain initiatives are starting to pay increased attention to contracting and how to facilitate fair and durable contracting systems.<sup>12</sup>

**Key Question:**  
***One key challenge with these systems is encouraging farmers to keep their contracts; another, perhaps related, is to ensure that farmers are receiving sufficient incentive to keep their contracts and that farmers perceive them as fair. What is needed to support secure contracting?***

What lessons have experts learned to date about commercializing such services? Most development agencies work with large-scale buyers who in turn establish traceability systems, for example, and work with their contract-farmers to keep the systems intact. But, once the project is over, it is up to the large-scale buyer to keep up with market trends and upgrade its system. In addition, if competing large-scale buyers want to introduce such a system, they may not have the capacity to do so. Thus, outreach and sustainability are limited. A more innovative approach is to develop a market for consulting services for a specific set of certification

<sup>9</sup> Frias and Mukherjee 2005; Mercy Corps 2004, 2005a; Emerging Markets Group 2005c.

<sup>10</sup> Walker n.d.; Best, Ferris, and Schiavone 2005.

<sup>11</sup> Best, Ferris and Schiavone 2005; Suleiman, Hall, and Suresh 2005; Emerging Markets Group 2005c; Walker n.d.

<sup>12</sup> Rich n.d.

## Example 30: Organic Certification of Small-Scale Cotton Farmers



### Agrocel, Vericott Ltd., International Resources for Fairer Trade, and Traidcraft in India

Agrocel, a social enterprise working with the rural poor, has developed a fairly traded, organic, branded cotton fiber in the Kutch region of India (the area recently devastated by an earthquake). Agrocel offers farmers a comprehensive package of inputs, technical advice, and certification services to grow organic cotton. The organization also purchases the raw cotton and processes it into yarn and cloth using organically certified techniques.

International Resources for Fairer Trade (IRFT), an NGO, worked with Agrocel to implement certification processes applied to the small-scale

farms and Agrocel's processing units, supported by SKAL, Netherlands. Vericott purchases Agrocel's yarn and fabric, marketing it to manufacturers as well as manufacturing its own brand of clothing (Gossypium). Traidcraft has managed the project and facilitated the fair-trade elements and market opportunities, while funding came from the Shell Foundation, Agrocel, Vericott, and Traidcraft. The unique claim of this value chain is that cotton fabric purchased through Agrocel can be traced all the way back to the individual farmer who grew the cotton. Between 2001 and 2004, Agrocel's total sales of organic cotton material were almost \$1 million.

To date, some 620 farmers cultivate 2,360 acres of land with organic cotton and have been certified by Skal International. They are paid a premium of 8 percent for this fair trade/organic cotton. Agrocel experiences a 90 percent retention rate of its small-farm suppliers. An evaluation querying farmer perceptions reports that 98 percent attribute increased income to organic cotton farming; 90 percent credit the project with helping them reduce their debt; 98 percent reduced financial hardship; 58 percent reported reduced migration from the area; and 100 percent reported improved health. In the next phase, Agrocel hopes to sell to a more diverse set of customers in order to scale up benefits to more farmers, also supporting rotational crops along the same lines.

For more information, see <http://www.agrocel-cotton.com>.  
Sources: DMM 2004; Traidcraft 2005a, 2005b.



## Example 31: Developing Commercial Markets for Social and Organic Certification Services

### GTZ in Vietnam

GTZ, in its work in Vietnam on incorporating SEs into buyer-driven value chains, highlights two instances of global buyers who are required to meet certification standards, working with development projects to build the capacity of Vietnamese consultants and institutions in helping SE suppliers meet certification standards.

The first instance is German retailers who form part of the Foreign Trade Association of the German Retail Trade (AVE). These retailers, under pressure from NGOs and consumer groups to improve working conditions at factories that supply their products, have established social certification standards to be met by local suppliers. Some retailers use in-house services to help suppliers comply, but others are working with development agencies to build the capacity of Vietnamese consultants to perform this work at lower cost to the buyers.

The second case is a German importer developing a supply chain for organic catfish. GTZ, under a public private partnership scheme, is assisting in building up the capacity of local service suppliers and institutions to help farmers implement and document organic fish-rearing practices.

In both cases, global buyers are driving the value chain and the need to meet and document standards among SE suppliers, and a developing agency is working hand-in-hand with buyers to build local market systems for providing certification-related services to SE suppliers.

For more information, see <http://www.sme-gtz.org.vn> or <http://www.sme.com.vn>. Alternately, see <http://www.bdsknowledge.org> (search by "Finkel").

Source: Finkel n.d.

services. These services are then sold, not to small-scale farmers, but to large-scale buyers, who incorporate them into their supply chain of small-scale farmers.<sup>13</sup> Although in its early stages, this strategy promises higher outreach and sustainability because consultants will keep up with market trends and sell upgrading services to large-scale buyers, and consultants will sell their services to a number of large-scale buyers.

#### 4.1.3. Comprehensive, Crop-Specific Support Packages

A critical lesson in pro-poor agricultural development is that there is demand for a comprehensive set of support products and services that help small-scale farmers reach markets.

Because small-scale farmers are isolated geographically, have low access to education and information, and have limited assets, they often face multiple challenges in getting crops to market.

For example, irrigation alone is often not enough to help farmers get into the horticulture market. They may also need access to seeds, training in crop husbandry, technical assistance in meeting quality and traceability standards, and market linkages. The specifications of each of these inputs and support products and services depend on market demand. Different markets will demand different varieties of crops (seeds), different sizes and shapes, different traceability standards, different timing, and different market links. Thus, private-sector suppliers, many of them buyers, are tending to deliver these services in a

<sup>13</sup> Finkel n.d.

comprehensive package.<sup>14</sup> Typical SE development initiatives, in contrast, have tended to specialize in a more limited range of support services or products. Even when developing the market for services, typical programs often focus on a limited number of services and consider them as separate markets.<sup>15</sup> However, some recent programs are having success with stimulating the market for a more comprehensive set of services, which are nevertheless very specific to helping SEs in specific subsectors to reach markets.<sup>16</sup>

#### 4.1.4. A Livelihood Security Perspective

In attempting to stimulate markets to work better for the poor, M4P-related initiatives are increasingly incorporating a livelihood security perspective into enterprise and value-chain development work. For example, livelihood security and agricultural development specialists debate the importance of specialization versus diversification for helping reduce poverty. The poor tend to engage in a range of productive activities in order to secure sufficient livelihood and reduce risks. For instance, it is estimated that 80–90 percent of rural Southern Africans rely on nonfarm income from enterprises and wages.<sup>17</sup> Often, in order to break into higher value markets, farmers will need to dedicate a significant portion of land, invest cash resources, and allocate more time to agriculture and to a single crop. This specialization may be lucrative but also presents risks and thus tends to exclude the risk-averse poor. Due to their higher poverty rates and their role in meeting basic family needs, poor women tend to be even more risk averse and so are even less able to take advantage of initiatives that require significant specialization. Agricultural development specialists are tackling this challenge through innovative support service packaging that takes risk levels and diversification strategies of the poor into account in the following ways:

- Working with buyers who provide most of the cash inputs and a significant amount of technical labor and agree to purchase crops
- Delivering a comprehensive set of services so that farmers have everything they need to make a new endeavor successful

### Example 32: Comprehensive Service Packaging

#### Mahindra and Mahindra in India

Mahindra and Mahindra Ltd., India's leading tractor manufacturer, entered the agricultural extension business in 2000 by establishing a subsidiary that set-up one-stop farm-solutions centers known as Mahindra Krishi Vihar (MKV) in Tamil Nadu. These centers provide farmers with a wide range of products and services including, inputs, farm equipment, credit (often through banks), on-farm advice from trained field supervisors, and purchasing of produce (through contracts with processing units). Mahindra and Mahindra offered this business as a franchise, and different models were attempted by several franchise owners, with two being particularly successful and several folding. The Bhuvu Care Private Limited, for example, learned to focus on both maize and rice, rather than just rice, because maize is less labor intensive and offered more value-added opportunities. A study of the scheme found that (1) the scheme caters more to farms that are large (more than four hectares) and medium (two to four hectares); (2) services resulted in significant increases in outputs and returns to farmers, and (3) farmers attributed increases in yields and income to timely provision of quality inputs, advice, and purchasing of produce—in sum, the entire, coordinated package. A challenge for this type of service would be to take it down-market to poorer farmers.

For more information, see <http://www.odi.org.uk/agren/>. Source: Sulaiman, Hall, and Suresh 2005.

<sup>14</sup> Best, Ferris, and Schiavone 2005; Chapman and Tripp 2003; Katz 2003; Emerging Markets Group 2005c.

<sup>15</sup> Miehlbradt and McVay 2003.

<sup>16</sup> Bista 2004b; IDE 2004; MEDA 2005d; Emerging Markets Group 2005c.

<sup>17</sup> Dorward et al. 2002; Hellin, Griffith, Albu 2005; ADB n.d.



## Example 33: A Livelihood Security Perspective in Market-Based Agricultural Development

### IDE Vietnam

In its work in remote rural areas of Vietnam, International Development Enterprises (IDE) introduced compressed fertilizer technology for the first time as part of a programmatic strategy to address food insecurity through rice intensification among ethnic groups. The project is the first within a series of strategic steps to create an enabling environment for smallholders to focus on higher-return on-farm generating activities such as pig husbandry and high value horticulture, as well as off-farm income.

The initiative takes affordable innovation as a focal strategy for poverty reduction. IDE promotes highly compressed urea pellets that are placed deep in the soil, the usual method for rice seeding, resulting in significant gains in rice productivity. A key feature of the project is the three-pronged market strategy to deliver the technology through the local retailers at unsubsidized prices: (1) product development to adapt affordable and responsive solutions to upland farmers; (2) promotion and marketing to disseminate affordable innovation among upland farmers; and (3) supply chain development to improve the coverage and quality of fertilizer and services to upland farmers.

Using this marketing strategy, IDE took the following steps in developing the market for affordable rice fertilizer:

- Used consumer research to adapt an affordable and easy-to-use technology that is applied using familiar techniques: a fertilizer pellet introduced by IFDC, an international center for soil fertility and agricultural development
- Engineered appropriate technology to further reduce the investment cost for establishing a fertilizer-making enterprise. The pellets are made from local ingredients using simple machinery. Through affordable design, IDE reduced the capital cost of processing equipment from almost \$2,000 to \$450. SE-manufacturing entrepreneurs were then able to break even before four crop seasons
- Promoted competition throughout the fertilizer-pellet supply chain in order to ensure affordability and product quality for the end user
- Trained marketers to offer free trial packages so that farmers could experiment on a small patch of ground for a season to see the results before making major investments
- Researched and developed marketing materials and communication messages tailored to specific audiences. For example, messages to men focused on the benefits of buying the fertilizer, while messages on how to apply the pellets were geared toward women who use them

As of 2005, some 4,500 farmers in thirty-four communes were regularly purchasing the fertilizer pellets, supplied by fifty-five SEs producing pellet-making machines or pellets, and marketing the fertilizer pellets. Farmers in coastal plains increased yields by 20 percent, and farmers in uplands increased yields by 96 percent. This work was supported by the Adapting Nutrient Management Technologies (ANMAT) project, funded by the International Fund for Agricultural Development (IFAD) and implemented jointly by IDE and IFDC, with additional support from Misereor.

For more information, see <http://www.ideorg.org> or <http://www.idevn.org/> or <http://www.bdsknowledge.org> (search by IDE and Vietnam).

Source: Frias and Trang 2004.



- Delivering inputs—seeds, agrochemicals, and irrigation kits—in small, affordable chunks so that farmers can apply them according to their own risk level
- Helping farmers gradually increase their participation in the market, from securing inputs to improve productivity of basic food crops and livestock to entering more commercial, riskier, and higher value crop production<sup>18</sup>

These adaptations to agricultural practices that take into account the diversification strategies of the poor may also be relevant to market development in other sectors.

#### ***4.1.5. The Challenge of Information in Rural Areas***

Market development initiatives struggle with getting information out to rural areas. By “information” experts mean a wide range of things, such as basic crop prices, sophisticated market standards, long-term demand trends, and names of specific buyers wishing to purchase a specific crop.

Information is also delivered through various media, including individual extension agents, mass market radio shows, Internet communication, and cell phone text messages. The rural poor face significant challenges to accessing information, including language and cultural barriers; mistrust; illiteracy, which precludes written and much electronic media; lack of connectivity to electricity and the Internet; lack of range for cell phone use; and low levels of education and exposure for understanding and applying information appropriately once it is received. In this broad arena, there are three common trends for tackling these challenges: (1) a focus on information exchange, (2) comprehensive information services, and (3) appropriate technology matching.

Past initiatives treated farmers as passive recipients of information and instructions. More recent approaches engage farmers in participatory dialogue. Experience is showing that informing is often more effective when target audiences are engaged in dialogue rather than approached as passive recipients of information. When engaged in dialogue, participants can better request the information they need, and information disseminators can better tailor their messages to existing levels of awareness. They can also better gauge how their messages are received and understood.<sup>19</sup>

Early high-tech information services concentrated on offering bits and pieces of market information—especially price information from local markets. Practice is showing, however, that some information is best received as part of a broader package of services, or at least with sufficient contextual information to enable appropriate use and application of the information. For example, farmers under contract to sell at a prearranged price may hear about high end-market price for their crops and may be motivated to sell to an intermediary offering a higher price, thinking that their contract-buyer is not giving them a fair price. However, price information alone does not invite farmers to consider the cost of the inputs and services the contract-buyer has provided, or to

<sup>18</sup> IDE 2004; Traidcraft 2005a, 2005b.

<sup>19</sup> Ramirez and Quarry 2004.

consider how the farmer will produce the following year without these services. Thus, the information would have benefited the farmer more if it were more comprehensive.<sup>20</sup>

As Internet and cell phone usage increases, these tools are becoming more important for disseminating information to rural areas,<sup>21</sup> but the predominance of radio and individual extension work imply that a range of technologies remains appropriate, depending on the target population and the nature of the information. In a few instances, innovative initiatives have been launched in which the poor directly access high-tech information and communications tools to get access to inputs and markets. These bear watching and replication where circumstances allow. However, when targeting poor people who live outside the range of Internet and cell phone connectivity and do not have the skills or means to access these technologies, radio and interaction with individual extension agents remain the more common and appropriate information dissemination tools.<sup>22</sup> Nevertheless, in such initiatives, high-tech solutions are increasingly important for back-end functions such as the following:<sup>23</sup>

- Transferring information from research centers, government agencies, or trade bodies to practitioners
- Providing traders with a range of price data for different markets
- Helping buyers track the status and performance of contract-farmers in order to identify demand for and timing of inputs, services, and purchases, and to identify and rapidly troubleshoot production issues<sup>24</sup>

Thus, information and communication technology may be increasingly important in developing the market for agricultural development services rather than in getting information directly to farmers.

Many of the rural poor suffer from the affects of war, disaster, and entrenched barriers to livelihood security, such as gender discrimination, HIV/AIDS, or simply homes in very remote locations. The rest of this chapter focuses on innovative, market-based strategies for addressing these challenges.

## 4.2. Market Reconstruction in Disaster and Conflict Situations

Over the past thirty years, the number and length of conflicts in the developing world has increased dramatically. Over fifty countries have experienced long-term conflict since 1980; fifteen of the poorest twenty countries in the world have been engaged in civil conflicts.<sup>25</sup> While natural disasters occur regularly in both the developed and developing world, the problem of how to help people rebuild after a disaster has been thrust back into the center of development dialogue by the unprecedented scale of destruction of the tsunami in Asia in December 2004. The tsunami devastated some of the poorest areas of Indonesia, Sri Lanka, and India, areas already engaged in conflict in the case of Indonesia and Sri Lanka. This tragedy reminded the world of the challenges that poor people face during and after a disaster, be it a flood, famine, earthquake, or other natural catastrophe. Conflicts and disasters have a disabling affect on markets and on affected populations, particularly the poor.

What lessons are emerging from programs focused on rebuilding disrupted markets? This section discusses some of the common challenges and emerging lessons in rehabilitating markets disrupted by conflict or disaster and helping poor people integrate into newly reemerging markets. It then provides some preliminary lessons specific to postdisaster situations and some specific to postconflict situations. These are presented with the

<sup>20</sup> Ibid.; Anderson 2004.

<sup>21</sup> Miehlbradt and McVay 2004.

<sup>22</sup> Anderson 2004; Bista 2004a, 2004b; IDE 2004a, 2004b; Emerging Markets Group 2005c.

<sup>23</sup> Ramirez and Quarry 2004; Boquiren 2004.

<sup>24</sup> MEDA 2005b.

<sup>25</sup> Nourse 2004a.



## Example 34: Lessons from Rural Information Services

### ILO FIT Small Enterprise Media in Africa (SEMA) in Uganda

The ILO FIT support of commercial small business radio programming in Africa, funded by the Swedish International Development Co-operation Agency (Sida) illustrates several principles of effective information service provision to the rural poor. Building on the successful initiation of commercial small business radio shows in Kampala, FIT-SEMA began to encourage replication of the program concept on radio stations in smaller towns and rural areas of Uganda. This resulted in the growth of radio programs across Uganda. In early 2005, there were 34 regular small business radio programs being broadcast in 13 local languages on 27 radio stations. Surveys have shown that 75% of Ugandans tune into these programs on a regular basis.

- **Technology Match:** Independent surveys estimate that between 80% -90% of households in Uganda own a radio, and there are over 100 radio stations operating in the country. Of those with access to radio, 90% listen for more than 30 minutes each week. In focus group discussions with random listeners, the project found that radio is widely perceived as a “school without fees” in which “all can participate, not just those who are literate or those in towns,” and where “everyone is equal and peasant farmers are not left out.” The project listener survey further found that among the three lowest social strata, between 67% (in the lowest strata) and 75% (in the middle strata) listen to small business radio. And, women had equal access to radio as men.
- **Participant Engagement:** The SE radio model promoted by FIT-SEMA is interactive. Investigative reporters interview target SEs to give SEs opportunities to voice their concerns. On-air dialogue brings SEs, technical experts, service providers and policy makers together to publicly address and resolve issues. And, SEs often write, e-mail, call-in or drop by the stations to identify stories, voice their concerns, or ask for advice. The programs give voice to previously silent groups. For example, one listener reports, “Before women never used to interact openly in business affairs, but today through these small business programs women have come out boldly.”
- **Comprehensive approach:** Although the radio programs do not offer direct, targeted business assistance or comprehensive value-chain development, the shows go in-depths into issues and focus on facilitating development results, not just reporting information. They often run stories in a series of features including an investigative report, on-air dialogue, and then a follow-up report and/or dialogue several weeks later. They provide practical advice about the dominant kinds of businesses and business challenges in their local, target area. And, they are often linked to value chain or advocacy initiatives such that they provide a key component to resolving constraints in complex situations. For example, coffee growers complained that buyers in an out-grower initiative were not paying when promised and were fixing prices with little negotiation. A program airing these concerns was followed by improvements in buyer performance, and appearances on the show by the buyers in an effort to repair the rift that had developed with their suppliers.

Fifty-six percent of listeners rate the programs as highly beneficial, and a further 40% rate them as quite beneficial. One third of listeners report that their business has expanded as a result of putting into practice what they learned on air.

For more information, see [www.bdsknowledge.org](http://www.bdsknowledge.org) (search by FIT-SEMA).

Source: ILO 2004.

caveat that experience in market-based approaches to reaching the very poor and vulnerable are limited. Discussions on this topic all call for action research to test emerging strategies.<sup>26</sup>

Relief work is a critical part of helping people survive conflicts and natural disasters. And, relief professionals concur that a transition from relief to development activities is critical for rehabilitation and sustained well-being. However, donors and practitioners are now realizing that the process of rebuilding markets needs to start as soon as possible after a disaster or conflict, minimizing the damage that donated goods and services can cause to local markets and helping people return quickly to an independent and sustainable livelihood. In the case of prolonged conflict, this may also include trying to keep markets operating and to help poor people continue to do business, even during the conflict.

**Key Question:**

***How can relief efforts avoid suppressing or distorting emerging markets in postconflict or disaster situations?***

*There is no doubt that affected populations need relief in the immediate aftermath of conflicts and disasters in order to survive.*

*However, practitioners report that relief efforts can stifle the reemergence of markets and crowd out the involvement of poor people and small enterprises in the economic opportunities that newly reemerging markets present. How can relief and market rebuilding efforts coincide to help affected populations survive and rebuild their livelihoods?*

### ***4.2.1. Challenges and Lessons in Rebuilding Disrupted Markets***

Markets that are disrupted due to disaster or war often display similar characteristics. Businesses are destroyed or shut down, so there is widespread unemployment while, at the same time, there are gaps in the skill base due to the deaths of many workers in their prime. Market links are disrupted for both inputs and products and services. Capital ceases to flow and many people lose their savings. Infrastructure is poor as a result of an attack or a disaster, or of neglect and lack of investment. Populations are highly mobile, which leads to lack of trust and investment in long-term market relationships. Markets are distorted due to relief donations. People in disaster or conflict situations often face similar challenges as well. They face the loss of assets and social networks as well as psychological trauma and often a lack of confidence that comes from losing strong family and community support.<sup>27</sup> Thus, there are some common challenges that communities face in rebuilding markets postdisaster and in the face of conflict.

Practitioners and donors agree that a multilevel response is needed for conflict and disaster situations. Programs to rebuild markets are just one part of the response that is needed. Economic programs must consider the immediate relief needs as well as the long-term development strategy of affected populations. This requires identifying both vulnerabilities and capacities of the target population. It is helpful to combine lessons from a variety of fields—such as small enterprise development, BDS, sustainable livelihood, microfinance, development relief and emergency response—rather than relying solely on the strategies from one field. It is also important to coordinate with other efforts to respond to the range of economic, social, psychological, and material needs of affected populations.<sup>28</sup> However, practitioners find it useful for market development programs to differentiate themselves institutionally and philosophically from relief efforts in order to

<sup>26</sup> Nourse 2004b; McVay 2004; Mercy Corps 2005e.

<sup>27</sup> Nourse 2004a.

<sup>28</sup> Nourse 2004b; McVay 2004; Mercy Corps 2005e.

## Example 35: Jump-Starting Agricultural Markets after a Natural Disaster

### Fintrac and USAID in Honduras

After Hurricane Mitch devastated Honduras in 1998, the economy was in ruins. USAID and Fintrac launched the Centro de Desarrollo de Agronegocios (CDA) project in 2001 to jump-start devastated agricultural markets. The context also included mistrust among market players and between farmers and development projects, as well as consolidation of grocery buyers, leading to the need for increased sophistication and formalization for small-scale farmers.

The first phase focused on achieving immediate and significant results. CDA built credibility by demonstrating get-it-right-the-first-time solutions to lead farmers and associations. They provided direct technical assistance and some direct subsidies and negotiated deals with buyers. Meanwhile, they built farmers' capacity in general to help them prepare for rapidly changing market demand.

The second phase focused on sustainability by transferring provision of technical assistance, inputs, and technology to the private sector. CDA built the capacity of existing market players by demonstrating that win-win relationships are more beneficial in the long run than the often exploitative relationships that previously characterized the market. In the market that CDA left behind, two major buyers have invested in training and extension staff who provide value-added services to, communicate with, and continuously build capacity of small-scale producers. Former "coyotes," or exploitative middlemen, are selling on a regular 20–25 percent commission and bringing receipts of sale to farmers to prove the final price they received, instead of hiding information from farmers and buyers. This approach worked to reconstruct and even strengthen markets in a challenging postdisaster setting.

Over a three-year period, the project jump-started agricultural markets to the benefit of small-scale farmers and strengthened and expanded the market system. Income to farmers increased more than 100 percent in the first year and another 200 percent in the following year.

For more information see <http://www.microlinks.org>.

Source: Chalmers, Field, and Downing 2005.

develop professional competency and promote businesslike relationships with stakeholders.<sup>29</sup>

Despite some key similarities among situations in different countries, discussions among practitioners in this area have emphasized the need to tailor programs to the particular context and situation they address. Of particular importance is whether target populations are displaced or returning, or if they are host to displaced or returning populations. It is also critical to understand what the situation was before the disruption, and the extent to which disruption is

likely to continue, so that realistic goals can be established. Is the goal to rebuild old market structures, to stabilize markets in the current setting, or to take advantage of new opportunities to build different market structures that work better for the poor and may even contribute to conflict avoidance and/or lower vulnerability should disaster strike again?<sup>30</sup>

Even in communities affected by the same market disruption, practitioners are finding it also helpful to differentiate among affected groups. A division into

<sup>29</sup> Nourse 2004b; McVay 2004.

<sup>30</sup> Ibid.

three categories according to capabilities is sometimes appropriate:

- Those that have the capability to manage development-focused activities immediately
- Those that are situationally vulnerable, who would normally have the capacity to manage development-focused activities but, due to the conflict or disaster, have lost their assets and thus need more relief-focused activities on a temporary basis to help them restart their enterprises
- Those that are extremely vulnerable, the ultra poor, who cannot manage development-focused activities and need extended relief-type activities

Once grouped, practitioners can develop appropriate interventions for each population: commercially focused for the first group, subsidized assistance and capital grants turning into market development programming for the situationally vulnerable and more intensive relief/subsidized programs for the extremely vulnerable.<sup>31</sup>

Microenterprises play an important role in providing income for the poor during and after conflicts or disasters. Often, the industrial and agricultural subsectors provide only limited employment in these situations. People in conflict and disaster affected environments often pursue business to earn a living because they have no land, animals, or employment opportunities. Despite the challenges, opportunities do exist for people to start or develop microenterprises in postconflict and disaster environments.<sup>32</sup> Practitioners find that an integrated approach to enterprise development is most appropriate in postconflict and disaster situations. Programs promoting access to skills, finance, and market opportunities in tandem are more likely to get enterprise and markets going than those that focus only on one or two of these areas.<sup>33</sup>

Perhaps the most significant lesson emerging from market reconstruction initiatives is the importance of acting quickly after disasters or conflicts to design and implement programs that restart businesses and nurture markets.<sup>34</sup> Unlike most market development programs that promote gradual and incremental market shifts, postconflict or disaster programs are more successful when they provide rapid and significant assistance to jumpstart economic activities. Immediate and impressive results can produce a demonstration effect, boosting confidence, gaining the trust of stakeholders, and laying the foundation for pursuing sustainable market development. Consequently, experts, donors, and practitioners view subsidies to restart economic activities quickly as useful in the early stages of postconflict or disaster market building.<sup>35</sup>

However, kick-starting economic activity is only the first step in rebuilding markets. Practitioners find that rebuilding markets is best thought about as a phased process. In the initial stages, the focus is on restarting economic activities and enterprises. Later, programs evolve to more complex market development interventions designed to promote sustainability through skills transfer, enterprise upgrading, developing value chains, and building up support markets.<sup>36</sup>

Finally, in rebuilding disrupted markets, collaboration and coordination with other relief and development agencies and local government is especially critical. Because of the predominance of free goods and services being supplied by relief and development organizations, the potential for distorting, rather than repairing, markets is significant. Fortunately, it is best practice among relief agencies to form committees to coordinate relief work; more development-focused organizations need to engage these committees in collaboration for market reconstruction as well.

<sup>31</sup> USAID 2005c.

<sup>32</sup> Nourse 2004a.

<sup>33</sup> Nourse 2004b; McVay 2004.

<sup>34</sup> Mercy Corps 2005e.

<sup>35</sup> ARC 2005; Chalmers et al. 2005; McVay 2004.

<sup>36</sup> Chalmers et al. 2005; USAID 2005c.

#### 4.2.2. *Postdisaster: Replacing Assets and Restarting Enterprises*

In postdisaster situations, many people are poor primarily because they have lost assets in the disaster. Experts and practitioners see the replacement of lost assets as a critical first step in enabling people to restart their livelihoods and to begin to build markets. Programs addressing communities affected by the Asian tsunami are experimenting with both cash and material disbursements to replace lost assets necessary for restarting enterprises.<sup>37</sup>

Practitioners also point out that relief efforts often distribute products that could be produced locally. This makes it more difficult for local industries and markets to restart. Instead, practitioners advocate for products and services needed in rebuilding to be sourced locally as soon as possible. Development agencies can play a useful role in helping local businesses to restart production and provide SEs with initial contracts related to relief and rebuilding efforts.<sup>38</sup>

#### 4.2.3. *Conflict and Postconflict: Addressing Tensions and Lack of Security*

One of the challenges in conflict or postconflict situations is tension among groups involved in the conflict. Practitioners find it critical for programs to lessen, or at least not exacerbate, tensions. Targeting areas or subsectors rather than specific populations is helpful, as is close monitoring of the perceptions of different groups of people regarding programs and their effects.<sup>39</sup> In refugee situations, practitioners find that developing mutually beneficial strategies for refugee and host communities reduces tension between these groups.<sup>40</sup>

Tenuous security situations are also a particular challenge in conflict and postconflict situations. Practitioners find that in these conditions, it is even

### Example 36: The Phases of Rebuilding Enterprises in Tsunami-Affected Communities

#### **Mercy Corps Aceh Recovery Program in Indonesia**

Funded by private donations and donor funds, Mercy Corps is implementing a phased recovery program in Indonesia designed to quickly restart enterprises and gradually promote the reemergence of sustainable markets through the provision of capital. Phase 1 of the project involves providing cash and material disbursements to people with preexisting businesses affected by the tsunami to enable them to restart their businesses. Cash grants are meant to be a one-time jump start. However, Mercy Corps recognized that communities or associations may have additional needs to fully regain their livelihoods. Phase 2 of the project allows communities or associations to access conditional loans that are repaid into a revolving loan fund. Phase 3 of the project will link businesses and associations with microfinance institutions or banks as appropriate. Finally, Phase 4 of the project will provide guarantees for enterprises that otherwise might be excluded from commercial credit to access larger loans from banks. This phased recovery program is designed to enable both large and small enterprises to restart, rebuild and grow.

For more information, see <http://www.mercycorps.org> or contact Nigel Pont, Mercy Corps, at [npont@id.mercycorps.org](mailto:npont@id.mercycorps.org).  
Source: Mercy Corps 2005f.

more important than in other contexts to be vigilant about how program resources are affecting different groups of people and, in particular, to safeguard

<sup>37</sup> ARC 2005; Mercy Corps 2005f.

<sup>38</sup> ARC 2005.

<sup>39</sup> McVay 2004; Nourse 2004b.

<sup>40</sup> Nourse 2004a.



## Example 37: Replacing Assets and Restarting Businesses in Tsunami-Affected Communities

### ARC in Thailand

Many coastal fishermen on the southwest coast of Thailand lost their fishing boats during the December 2004 tsunami. In January 2005 the American Refugee Committee International (ARC) started a project with funds from private donations to enable fishermen to regain their livelihoods by replacing their fishing boats while also building skills and strengthening local fishermen associations. Following the disaster, ARC identified local fishing associations that could serve as the conduit for relief. The associations identified members who had lost their boats and prioritized their needs according to personal assets and other damages suffered due to the tsunami. The associations also identified local artisans who could build new boats using local materials. With the associations, ARC contracted the local artisans to build boats for selected fishermen. Those who benefited were paid a small daily wage to work alongside the artisans in order to increase their ability to repair the boats in the future and to provide an instant income source. As a result of the project, the local boat-building industry was strengthened with an immediate increase in orders while the speedy return of boats to fishermen helped them to revive their livelihoods. Once this aspect of the program is completed, ARC will seek to build upon its relationship with the fishing associations to conduct more development-focused activities.

For more information, email Tim Nourse, ARC, at [Timnourse@aol.com](mailto:Timnourse@aol.com).  
Source: ARC 2005.

against powerful groups usurping program resources. To address this problem, it is helpful to work with organizations that know and represent the interests of each target group. Particular strategies to promote improved security include encouraging clients to form business watch groups, to become involved with local peace initiatives, and to work with local government/peacekeepers to protect their businesses.<sup>41</sup> Some recent initiatives recognize that many long-term conflicts subside and reemerge over decades. As communities struggle with their livelihoods, these programs do not wait until a conflict “ends” but are constantly engaged in market (re)construction, according to what target populations are doing to survive.

Several market development programs have had to shift focus due to recent conflict while attempting to maintain a systemic, market-based approach. For example, the GTZ Private Sector Development program, which had established a BDS market development initiative in urban Nepal, is pursuing a twofold strategy in the face of intensified conflict in recent years. First, the program shifted to targeting conflict-affected rural areas and shifted to a value-chain approach to help link poor producers to markets. Second, the program encouraged the business community to play a role in promoting peace. The program supported a national conference on the role of the private sector in peace-building, reconciliation, and development, which spurred a new initiative known as the National Business Initiative for Peace, an alliance of sixteen business associations that encourages large businesses to increase links with SEs and investment in rural areas.<sup>42</sup>

Despite the challenges of postdisaster and postconflict settings, practitioners are finding market development approaches useful for helping poor people regain their livelihoods, and sometimes even improve them, in the aftermath of wars or natural catastrophes.

<sup>41</sup> McVay 2004; Nourse 2004b.

<sup>42</sup> McVay 2004.



### Example 38: Rebuilding Markets in Postconflict Situations

#### ARC, Making Cents, CARE, World Vision, CRS, and Search for Common Ground in Sierra Leone

When ten years of civil war left Sierra Leone's already weak formal sector decimated, Sierra Leoneans became even more concentrated in microenterprise and informal sector activities. However, forced migration, a poor educational system, a prevalent relief mentality, and lack of basic business knowledge resulted in weak microenterprise performance and low incomes. ARC and Making Cents are initiating a program, funded by USAID, to provide business training to conflict-affected communities, including ex-combatants, returnees, and internally displaced people. The program focuses on developing local trainers to provide training in affected communities and stimulating demand among microenterprises for training. Initially the program will promote basic training on a subsidized basis through a voucher scheme. In the second stage, it will introduce more advanced training on a cost-recovery basis.

Sierra Leone's markets were also fragmented from the conflict, particularly in the agricultural sector, where farmers, input suppliers, and wholesale buyers had become cut off from each other. ARC, CARE, World Vision, CRS, and Search for Common Ground are implementing a program to increase crop production and develop or improve links among value-chain players at the local, regional, and national levels. The program provides financial services, technological solutions, and information to key players in agricultural value chains.

For more information, email Tim Nourse, ARC, at [Timnourse@aol.com](mailto:Timnourse@aol.com).

Sources: ARC 2003; McVay 2004; USAID 2005c.

### 4.3. The Entrenched Poor: Initiating Enterprises and Nurturing Nascent Markets

While many programs aim to reach poor people that are just under or over the poverty line, a few are aiming to reach much deeper—to the entrenched poor who are well below the poverty line. Many more hope to do so in order to reach the UN Millennium Development Goal of reducing extreme poverty by half by the year 2015. The entrenched poor are characterized by very low incomes, a lack of access to assets and resources such as basic education, health care, and water. They are also extremely vulnerable to shocks and to changes in markets. Many also suffer from some ethnic, gender, and other social discrimination or abuse.<sup>43</sup> They often interact in markets in a very limited way, if at all, and their economic activities are geared toward survival.

Can development work help integrate the entrenched poor into markets on beneficial terms? If so, how? This section addresses these questions, drawing on recent papers and current programs. After describing general lessons learned, it discusses three groups of entrenched poor people specifically: very low-income women, HIV/AIDS affected households, and remote rural communities.

There are two common strategies for integrating the entrenched poor into markets: (1) targeting sectors, subsectors, and/or enterprises that might offer employment to the very poor, and (2) integrating the entrenched poor into markets by helping them start microenterprises and/or integrating microenterprises owned by entrenched poor people into promising value chains.

This chapter mainly addresses the second strategy. Many of the strategies described elsewhere in this document are relevant for helping businesses create jobs for the poor.

<sup>43</sup> Jones 2004a; Viswanath 2004.

### 4.3.1. Lessons on Reaching the Entrenched Poor

Over the past two years, a number of programs have made limited progress in integrating the entrenched poor into markets. There have also been initiatives to share challenges and emerging lessons learned among practitioners attempting to reach these populations.<sup>44</sup> Some of the key lessons learned follow. Once again, with the caveat that discussions on this subject ended with a call for action research to gain more experience in helping the entrenched poor access and benefit from markets.

The entrenched poor are disconnected from markets for many interlinked reasons. They also face a host of barriers to beneficial market participation. Consequently programs targeting the entrenched poor usually operate on multiple levels and address many areas of disconnect between poor people and market systems.<sup>45</sup> For example, a program may have to address constraints at the level of households, communities, the target group's enterprises, those enterprises that might become trading partners with the target group, value chains, support markets, and the regulatory environment.<sup>46</sup>

The entrenched poor are often producing mainly for subsistence and/or surviving on occasional wage labor. Helping them transition to managing microenterprises and integrating them into markets requires links with a range of other market players and a bundled set of support services that enable them to begin trading in markets, often for the first time.<sup>47</sup> Generally, integrating the entrenched poor into markets requires a much more comprehensive support package than reaching slightly better-off groups that are transacting in markets. For example a program may need to simultaneously link poor

**Key Question:**  
***Is providing links to subsidized business services useful?***

*Programs implementing a market-based approach targeting enterprises owned by poor people often find that subsidized or free business services are available to their target groups. Some practitioners say that poor people might as well take advantage of these existing services and so they link their target groups to them. Others say that promoting the subsidized services further ingrains a hand-out mentality and suppresses private-sector service provisions. How should programs using a market-based approach respond to others that are offering subsidized solutions? Does it depend on the target group and the context? If so, how?*

people to inputs, technology, and product buyers. A package of support services might include technical training, market information, business advice, quality control, production advice, new product development, packaging, etc. Generating these links and access to support services often requires involvement of many market players. For example a program might work with input suppliers, technology suppliers, lead farmers/producers, producer/farmer associations, intermediaries, and large companies.<sup>48</sup> Practitioners also agree that access to finance is almost always needed in programs targeting the entrenched poor.<sup>49</sup> Many practitioners targeting the entrenched poor are using value-chain approaches because they emphasizes market access, which is critical to the very poor, and they lend themselves to developing a more comprehensive set of support markets than other approaches.<sup>50</sup>

<sup>44</sup> The SEEP Network has held a number of discussions on reaching different target groups with a BDS market development approach: low-income women, HIV/AIDS affected households, and people affected by disaster or conflict. Summaries of these discussions can be found at <http://www.seepnetwork.org>.

<sup>45</sup> Albu 2005; Boomsma n.d.; Jones 2004a; Magistro et al. 2004; Morgan 2004.

<sup>46</sup> MEDA 2005a; Mercy Corps 2005c, 2005d; Morgan 2004; Rodríguez 2004.

<sup>47</sup> Haight 2004a; Morgan 2004; Viswanath 2004.

<sup>48</sup> Manaktala 2004.

<sup>49</sup> Haight 2004a; Mercy Corps 2005c; Morgan 2004.

<sup>50</sup> Boomsma 2004; MEDA 2003, 2005a; Magistro et al. 2004; Morgan 2004; 2004; Viswanath 2004.

Because of their vulnerability to shocks, the entrenched poor are risk averse. They cannot risk their very limited assets and labor on trying a new business activity—even one that is just an incremental change from their current economic activities—without being assured of actual sales and benefits. This issue has a number of implications for program design.

First, program staff need more technical capacity because the target group has less. Program staff should have a deeper understanding of the market channels and final markets for the particular products or services of the poor that the program targets. They should also have a stronger understanding of the production issues related to meeting market demand—for example quality control issues, product standards, and product specifications. This understanding should be translated into a clear plan for enabling the poor to reach markets even on their first try.<sup>51</sup> Because developing this plan is challenging, programs may work with slightly better-off poor people initially to hone business models and systems before moving down market to the entrenched poor.

Second, programs need to reduce transaction costs and bring markets to the poor. Often, the poor cannot initially afford to risk even the opportunity cost of traveling far to access final markets or support markets. Therefore, some programs are developing market systems that deliver support products and services and market access to the doorsteps of the poor. Sometimes, after experiencing benefits from market transactions, the poor will later travel to gain access to markets and support products and services.<sup>52</sup>

Third, programs need to ensure a high and quick return. Perhaps the most important program design consideration is ensuring a high return on

investment in a short time from new business activities. For example, IDE India identifies and/or designs irrigation technologies that are affordable and have a 100 percent return on investment within the first crop season.<sup>53</sup>

Practitioners emphasize that the entrenched poor often lack the basic skills necessary to serve growing markets and to interact effectively in markets.<sup>54</sup> Basic skills training and apprenticeships can address this lack of marketable skills. Poor people also have little experience in interacting with buyers beyond local intermediaries, negotiating contracts, or developing contracts and honoring them. Program staff are building the capacity of groups or clusters of poor microenterprises in these areas so that they can participate actively in markets.<sup>55</sup>

Practitioners and experts are now emphasizing that program designs must take into account poor people's context and the social, cultural, and economic barriers to their effective participation in markets. This might include illiteracy, disabilities, gender bias, class bias, social stigmas, and power relations at many levels.<sup>56</sup> Some practitioners are finding that addressing social issues within programs or linking target groups to other programs that address them improves the success of economic projects. For example, a program might link poor people to gender awareness or empowerment training, literacy, health, counseling or legal services, or assistance for escaping abusive situations. Another useful strategy, particularly for lessening social stigma and discrimination, is mobilizing community support for poor people and getting community leaders on board to support and advocate for the poor.<sup>57</sup> If social and cultural issues are not addressed alongside economic ones, it may be impossible for the entrenched poor to integrate successfully into markets.

<sup>51</sup> Morgan 2004.

<sup>52</sup> Haight 2004a; MEDA 2005b.

<sup>53</sup> Manaktala 2004.

<sup>54</sup> Haight 2004a; Morgan 2004.

<sup>55</sup> Mercy Corps 2005c; Morgan 2004; Viswanath 2004.

<sup>56</sup> Albu 2005; Haight 2004a; MEDA 2005a; Morgan 2004; Reinprecht 2004.

<sup>57</sup> Albu 2005; Jones 2004a; Morgan 2004.

## Example 39: Access to Marketable Skills and Finance for People with Disabilities

### NUDIPU and APT Enterprise Development in Uganda

The National Union of Disabled People of Uganda (NUDIPU) and APT Enterprise Development, with funding from DFID, conducted a project to help people with disabilities to enter mainstream employment or to start and grow their own small businesses. The project operated in northern Uganda, a desolate region where a brutal insurgency has further stifled an already weak economy. The project linked people with disabilities to training services from local trainers on a fee basis in such subsectors as electronics assembly and repair, bakery, tailoring, and carpentry. The main roles of the project were the following:

- Mobilizing demand for training among people with disabilities, primarily through public meetings and radio programs. A critical element of mobilizing demand for fee-based training was convincing both district NUDIPU leaders and individuals with disabilities to see enterprise-based training as a personal investment in the future and to understand that the project was not going to directly subsidize training.
- Stimulating supply of enterprise-based training through personal meetings with suitable businesses. An important element was convincing training providers to consider individuals with disabilities as capable of learning skills and making a valuable contribution to their businesses during the training process.
- Linking people with disabilities to training providers. This frequently involved helping negotiate the payment terms.
- Assisting graduates to find work.
- Persuading microfinance providers to offer credit to people with disabilities. This component was less successful than the others.

Program results: 231 people sought training; 103 training placements were established; 60 trainees completed their training, 22 of which had found employment and 16 of which had started their own businesses by the end of the project. The modest numbers do not fully express the achievement of reaching these impoverished and often socially isolated people on a commercial basis, as well as the individual success stories of destitute people with disabilities joining and benefiting from the mainstream economy. APT enterprises has outlined a number of lessons learned from the program that could enhance outreach and replicability.

For more information, email Mike Albu, APT, Enterprise Development at [Mike.Albu@zen.co.uk](mailto:Mike.Albu@zen.co.uk).  
Sources: Albu 2005.

Some practitioners are finding that understanding a poor household's stage of enterprise development is also critical to designing effective strategies to help them integrate into markets. For example, a program in India has two distinct sets of interventions. The first is for households at a livelihood security stage, where maintenance of assets and income is the target group's main consideration. After several years within the

program, some households move to an enterprise growth stage, where their tolerance for risk and ability to interact in markets increase.<sup>58</sup>

Practitioners also point out that the poor need the capacity to continually upgrade if they are to maintain trading relationships and interact effectively in markets over time. Programs may start with subsidized services, but those that build in

<sup>58</sup> Viswanath 2004.

sustainable access to skills training and product development services are more successful at achieving this level of sustainability.<sup>59</sup>

### 4.3.2. Integrating Low-Income Women into Markets

The challenges of reaching low-income women through economic development initiatives have been well documented. They include women's multiple roles within households and their often low level of marketable skills, lack of mobility, and vulnerability to subjugation and abuse within the household and market, as well as gender bias in the economic and cultural environment and adverse regulations, particularly in ownership laws. Many low-income women suffer from a combination of disadvantages. As a result of some of these factors, women-owned microenterprises tend to be concentrated in low-value, saturated markets with little room for value addition, such as petty trade, food preparation, beauty salons, and tailoring.<sup>60</sup>

Despite the challenges, a few programs are succeeding in integrating low-income women into markets on beneficial terms. What lessons do these programs offer specifically with regard to reaching women?

Programs that identify growth areas building on women's traditional skills have been the most successful in reaching women.<sup>61</sup> These are often sectors with a high concentration of low-income women. For example, one program in Ghana wanted to help women get out of saturated markets with limited income opportunities. The program established apprenticeship opportunities for women in nontraditional sectors, but almost all of the young women participants eventually chose to enter traditional sectors anyway. The program then assisted food vendors, a traditional business for

women, to form partnerships with schools, hospital cafeterias, and restaurants. In this case, women were willing to pay high fees for quality training that would help them obtain lucrative institutional contracts.<sup>62</sup>

Programs that take into account and, when possible, change critical barriers in the enabling environment can increase their impact. Most significantly, there are often legal barriers to women owning or inheriting land. In HIV/AIDS affected areas, this barrier results in many relatively young rural widows without a source of livelihood for their families. Access to land also has implications for women's capacity to run businesses and, often, get access to credit.<sup>63</sup> For example, a project in Tajikistan found that land privatization excluded women even though a large number of men had left the countryside to find work elsewhere or were killed during the civil war. Without land to use as collateral, women had trouble obtaining credit to start up microenterprises. A second critical area of concern, exacerbated in HIV/AIDS affected areas, is sexual harassment by local authorities or powerful market players. In such situations, programs may have limited effect unless they also support advocacy for legal reform, better business practices, and/or empowerment strategies that help women work around gender discrimination.<sup>64</sup>

Some practitioners recommend including men in program-related activities, and not identifying programs as targeting women, even when the program has this overall intent. Excluding men can lead to increased suspicion and conflict in households and communities. Rather, programs can be better accepted in the community and can be more effective by targeting female-dominated sectors and activities and raising awareness of the economic opportunities that women's involvement offers for families and the community.<sup>65</sup>

<sup>59</sup> MEDA 2005a; Morgan 2004.

<sup>60</sup> Haight 2004a; Jones 2004a; MEDA 2005a; Viswanath 2004.

<sup>61</sup> Haight 2004a; MEDA 2005a.

<sup>62</sup> Haight 2004a.

<sup>63</sup> Haight 2004a; Morgan 2004.

<sup>64</sup> Haight 2004a.

<sup>65</sup> MEDA 2005b; Morgan 2004.



## Example 40: Linking Remote Rural People to Markets

### Conservation International in Botswana and Guatemala



In the expansive savanna northeast of the Okavango Delta in Botswana, Conservation International (CI), with private funding, is helping a village of the Bukakhwe Bushmen to rejuvenate their culture and create jobs. The initiative is also preserving the habitat of endangered elephants and wild dogs, as well as at-risk cheetahs, wattled cranes, lions, leopards, and other animals. CI helped the eight hundred village members to form a trust, assess their situation, and make a viable plan for sustainable community development. CI funded the trust to establish Gudigwa Camp, which offers guests a rare opportunity to explore the traditional lifestyle of

the Bukakhwe and highlights the intimate connection between the Bukakhwe's cultural heritage and the surrounding natural environment. CI helped the trust to partner with Wilderness Safaris, a private tour operator, to market the camp and manage guest logistics. To establish the camp, CI helped the trust to realign fences for livestock that were cutting off animal migration patterns and keeping Bukakhwe people from their traditional activities in the savannah. The camp, which employs fifty people and also brings business to local craftspeople and guides, promises to be a sustainable enterprise.

In Guatemala, CI invested in a cluster of ecotourism enterprises in Petén, the country's northernmost department, situated in the second largest tropical rainforest in the Northern Hemisphere. The ventures included a Spanish language school, tourism trails visiting ancient Maya ruins, walking tours, home-stays, and a certification program for local restaurants and hotels. CI then helped these community businesses establish a tour company to market their unique ecotourism experience in this remote region of Guatemala. The dominant tour operators who attracted large-scale tourism to the region were not initially interested in marketing the community businesses, but when they saw the success they bought shares in the tour company. CI has exited this market, leaving behind a sustainable value chain.

Building on these and other experiences, CI has entered a partnership with George Washington University's School of Advanced International Studies to offer a training program in ecotourism.

For more information, see <http://www.conservation.org> and <http://www.ecotour.org>.  
Sources: Conservation International 2005a–c.



## Example 41: Reaching Poor, Homebound Women Microentrepreneurs

### MEDA and ECDI in Pakistan

In Pakistan, Mennonite Economic Development Associates (MEDA) and the Entrepreneurship and Career Development Institute (ECDI) are implementing a program, funded by USAID, to increase the incomes of poor, rural women microentrepreneurs in the embroidered garment subsector. As part of the culture, many of these women do not leave their homes or meet with men beyond their immediate family members. The program links these female embroiderers to growing urban, middle-, and upper-class consumer markets through female traders. These women intermediaries have the mobility to visit rural women in their houses, buy their products, and travel to sell them to wholesalers and retailers in urban areas. MEDA and ECDI are strengthening the capacity of these traders to deliver quality inputs and a package of embedded services, including market information, product design, and quality control that enable rural embroiderers to make products that appeal to modern consumers.

After seven months of operation, the program was working with 101 female intermediaries who were buying from more than 1,000 rural embroiderers. Perhaps more impressive is the success of the project in reaching poor, isolated women in very conservative households. For example, as women are contributing more to household incomes and families are seeing the benefits, women are being empowered on a number of levels. When the program began, male relatives in traditional segregated communities were cautious about their womenfolk attending meetings or workshops. In some cases, for example, where husbands were supportive but wary, they would attend events alongside their wives and observe the proceedings. Gradually, as the men became comfortable with the facilitators and the obvious economic goals of the program, women acquired greater freedom. Men began to wait outside the learning venue or felt comfortable simply escorting women to and from the meeting site. Then, in May 2005, eight months into the project, a rural artisans' exhibit was held in Karachi, Pakistan's largest city. Women who less than a year before had rarely left their villages in Balochistan, Sindh, and Punjab, participated together in the public event, selling their fine products to admiring middle-class women and men. And, in many cases, the rural men proudly and confidently stayed at home.

For more information, see <http://www.bdsknowledge.org> (search by MEDA and Pakistan) or email Linda Jones, MEDA, at [ljones@meda.org](mailto:ljones@meda.org) and Perveen Shaikh, ECDI, at [ecdi\\_pak@yahoo.com](mailto:ecdi_pak@yahoo.com).  
Sources: MEDA 2005a, 2005b.

At the same time, programs have found that developing women's organizations and leadership can increase a program's effectiveness. Women's organizations enable women to interact more effectively in markets.<sup>66</sup> Several programs are showing positive results from developing women-to-women business networks and women as intermediaries, traders, support service providers, and association leaders.<sup>67</sup> For example, a program in

Bangladesh is promoting women accounting, finance, and taxation service providers with basic skills to serve women entrepreneurs. The program promotes links between these service providers and entrepreneurs through industry associations representing sectors with a high concentration of women. The program has found that women are more willing to get services from a woman, particularly as their businesses are home based.<sup>68</sup>

<sup>66</sup> Jones 2004a; MEDA 2005b. Note that this is also a recommendation from a program targeting disabled people.

<sup>67</sup> For example, MEDA 2005a and KATALYST 2004b.

<sup>68</sup> KATALYST 2004b.

In addition, practitioners are finding that in order to reach women, it is often important to have female staff implementing programs.

### **4.3.3. Reaching HIV/AIDS Affected Households**

Even more than other groups of entrenched poor, HIV/AIDS affected households suffer from increased vulnerability, work disruptions, and often social stigma. Given the high prevalence of HIV/AIDS infection in Africa, where the poor are concentrated, dealing with the challenge of HIV/AIDS has become a mainstream development issue. Virtually all development initiatives in Africa are operating in areas affected by HIV/AIDS. Yet, practitioners are still experimenting with a range of strategies to address the specific issues of HIV/AIDS affected households and their interactions in markets. Some emerging lessons follow, although researchers in this arena stress the need for more action learning.<sup>69</sup>

Practitioners are finding it critical to address economic and social issues in tandem when addressing HIV/AIDS affected communities. Links to services such as counseling and legal services to assist with the preparation of wills are not only important in themselves but also help households to be more economically productive.

Addressing the social stigma against HIV/AIDS affected households is an important part of programs. This might involve communities, potential trading partners, and/or local authorities and government agencies. However, practitioners are finding that it is not helpful for programs to single out HIV/AIDS affected households for participation. Focusing only on those households can increase, rather than reduce, their isolation, and many are loath to participate because of the social stigma. In addition, practitioners point out that infection rates are so high in many areas that a household that is not affected today might easily be affected tomorrow. Therefore, programs that target areas of high infection and design interventions so that poorer and more vulnerable households self select to participate are more effective at reaching affected households without increasing social stigma.

Lead firms in areas with high infection rates are struggling with high labor turnover and compromised productivity. Practitioners point out that some large firms are addressing HIV/AIDS issues in order to improve their labor productivity. Firms also have an incentive to provide HIV/AIDS prevention services to surrounding communities and to their suppliers, but this strategy has yet to reach SEs.

A significant challenge to HIV/AIDS affected households' integration in markets is labor disruptions. Useful strategies to overcome this challenge include:

- Involving entire households in enterprise activities
- Promoting enterprise activities that keep participants close to home
- Promoting labor saving technologies
- Encouraging sharing production to meet orders among households within clusters or informal groups

<sup>69</sup> Morgan 2004.

## Example 42: Addressing Social and Economic Issues for HIV/AIDS-Affected Households

### Tuokoe Binti Zetu and Kenya BDS in Kenya

In Kenya, fishing is very profitable and is considered a male occupation. The majority (75 percent) of fish purchasers are women fish traders. Fish traders need a guaranteed, steady supply of fish to generate a living wage. In order to buy fresh fish at affordable prices, these vulnerable women are subject to the whims of fishermen who demand sexual favors. In a region with high HIV infection rates, women risk their lives to do business. The following are two different approaches to tackling this crisis.

Tuokoe Binti Zetu, a Kenyan NGO, focuses on helping women fish traders to escape this exploitation. The NGO helped women form a group to acquire fishing permits, training from experienced fishermen, and fishing boats and gear. The group employed young, male, HIV-positive orphans to fish on the group's behalf and employed truckers to transport the fish. Tuokoe Binti Zetu also helped secure a safe place for the boats to dock and educated the community in embracing cultural change. As conflicts between the group and male fishermen emerged, Tuokoe Binti Zetu arbitrated the settlements. This empowerment initiative not only protected women's safety and health but also increased their profits as they entered the higher profit, male-dominated part of the value chain—fishing. It is a labor intensive, small-scale effort to date.

The Kenya BDS program tackles the problem through savings mobilization on a larger scale. The lack of a savings culture among fisherfolk has been identified as a primary contributor to the spread of HIV/AIDS, as daily earnings are often directed toward alcohol and prostitution. Through the USAID Kenya BDS program, in partnership with local facilitator Resource Mobilization Center (RMC), an intervention is being piloted that combines financial services with business services. The program has developed local independent service providers who train fisherfolk groups in financial management, as well as inform them about the importance of savings. Technical assistance is also provided directly to reputable financial institutions to develop beach banks and products specifically geared toward fisherfolk. An example of a product is the market-day loan, which women omena fish processors use to buy fish at the beginning of each day for processing and selling in the local market the following day. The loan helps women mobilize capital rapidly to increase their bargaining power vis-à-vis the fishermen, which may help them escape sexual harassment and overcome challenges associated with the sex-for-fish industry. In the first year of implementation, the program operated in nine beaches, with three reputable financial institutions (SAGA Thrift and Promotion Enterprise Limited, K-REP Bank, WEDCO) and over 2,300 fisherfolk having individual savings accounts. A total of 19.6 million Kenyan shillings in deposits has been mobilized. Eleven local consultants have been developed to offer savings mobilization services on a commercial basis.

For more information, e-mail David Knopp, Emerging Markets Group, at [david@kenyabds.com](mailto:david@kenyabds.com) or see <http://www.kenyabds.com> or <http://www.bdsknowledge.org>.

Sources: Emerging Markets Group 2004; Haight 2004.

### 4.3.4. Market-based Approaches to Targeting Remote Rural Communities

Integrating poor people in remote rural areas into markets has a range of specific challenges. There are often a small number of producers in any particular subsector who are far apart, resulting in an overall low scale of production for any particular product. This makes it difficult to attract large buyers

to trade with remote rural communities. Agricultural yields are often too low for subsistence, let alone trade. There tend to be few intermediaries buying from remote rural areas, often resulting in individual intermediaries having a monopoly in the villages they serve. There are few, if any, providers of support products and services. Physical access is challenged by distance and poor infrastructure. Education levels are low, so the skill base is

traditional, which can open opportunities as well as present barriers. Even if the regulatory environment is positive, enforcement in remote rural areas tends to be lax and inattention from central government can lead to unchecked corruption by local authorities.<sup>70</sup> Some remote rural areas are home to endangered forests or other natural resources, which offers both opportunities and constraints to livelihood strategies. In addition, many people living in remote rural areas represent ethnic groups that have been historically discriminated against, presenting social barriers to market integration. Finally, many practitioners, donors and others perceive indigenous rural cultures, communities, and ways of life as an endangered human resource, something that is an asset, but also something that needs to be approached with the awareness and full participation of rural communities so that they have opportunities to preserve their culture in the face of the global market.<sup>71</sup>

Until recently, using a commercial, market-based approach to assisting remote rural communities was almost unheard of. However, a few programs are now starting to make progress in integrating remote rural producers into markets.<sup>72</sup>

Because it is very difficult to attract large buyers to remote rural areas where producers are spread out, programs are focusing on smaller intermediaries and potential trading partners.<sup>73</sup> For example, a program in rural, western Nepal that targets very poor collectors and cultivators of nontimber forest products works with small traders from Nepal and India who are a critical link in the value chains leading to domestic and export markets.<sup>74</sup>

Although remote rural communities are spread out, in some value chains, producers come to collection points regularly to sell products and often buy inputs. Programs are strengthening enterprises at these collection points and working to improve these enterprises' relationships with rural producers and the embedded services they deliver to rural producers. These collection points can become places for the remote rural poor to access a comprehensive set of services to help them reach markets.<sup>75</sup>

Some programs help remote rural people form community-owned enterprises that provide comprehensive market-access packages—for example, in coffee production and marketing and ecotourism marketing, management, and referral. These efforts are quite labor and capital intensive but can present sustainable solutions to business and market creation in isolated areas.<sup>76</sup>

The use of media to reach remote rural communities with information, technical advice and other services continues to expand in Africa and Asia. Radio is now well established in several countries as a mechanism for reaching remote, rural, poor communities.<sup>77</sup> SMS messaging is the latest media with which programs are experimenting to deliver information to rural communities commercially.<sup>78</sup>

Some remote rural communities are facing declining returns to traditional activities as a result of environmental and/or market changes. For these rural communities, diversifying into other activities is vital. Practitioners pursuing this route are finding that business planning services are critical to ensuring that new activities will be viable. It is also

<sup>70</sup> Boomsma 2004; Mercy Corps 2005a, 2005c.

<sup>71</sup> Conservation International 2005a; see <http://www.conservation.org> and <http://www.aidtoartisans.org>.

<sup>72</sup> Conservation International 2005a, 2005b, 2005c; Idrovo and Boquiren 2004; Mercy Corps 2005a.

<sup>73</sup> Boomsma 2004; Idrovo and Boquiren 2004; Mercy Corps 2005a.

<sup>74</sup> BDS MaPS 2004a, 2004c.

<sup>75</sup> ComMark Trust 2004; Idrovo and Boquiren 2004.

<sup>76</sup> Conservation International 2005a, 2005b, 2005c.

<sup>77</sup> Anderson and Kibenge 2005; Mercy Corps 2005c.

<sup>78</sup> Mercy Corps 2005c, 2005d.

## Example 43: Enabling Remote Rural Herders to Diversify Their Economic Activities

### Mercy Corps and PACT in Mongolia

With funding from USAID, Mercy Corps and PACT are assisting herder groups in rural Mongolia to transform their traditional livelihoods into commercial enterprises while also strengthening other existing small businesses. Mongolia is the most sparsely populated country in the world. In the Gobi region, where the program operates, population densities range from 0.2–0.6 people per square km. The program assists herder groups and other rural businesses to access business consulting, training, and technical assistance. It provides loan guarantees to help small producers access loans from banks. It links businesses with potential trading partners. And, it increases access to business and market information through media—radio, television, and SMS. During the first five-year phase of the program, which concluded in January 2004, 300 new businesses were created through training for more than 2,500 would-be entrepreneurs and 250 herder groups, comprising 10,000 individuals. Consulting services enabled businesses to increase their productivity and profitability. The introduction of a herder-managed breeding program resulted in a 100 percent increase in the supply of elite breeding animals. Trade fairs and exhibitions assisted herders in selling their production and establishing valuable contacts. In the first year of the program's second phase, which ended in January 2005, 100 herder groups and rural businesses generated a record US\$650,000 in new sales.

The program is experimenting with a phased approach to developing business service markets and laying the groundwork for the commercial provision of services upon the program's completion. Program staff provide basic business planning services to herder groups at no cost. For these herder groups, the planning focuses on improving and expanding current production or services and/or diversifying into new activities beyond selling raw wool and cashmere. Mercy Corps hopes that the staff will remain in their respective areas after the program ends, continuing to offer these business consulting services for a fee. For the more advanced and ongoing training and technical assistance needs, herder groups and other rural businesses are linked with local service providers on a cost-sharing basis. To build the capacity of these service providers, Mercy Corps engages mentors, private-sector providers or staff from recognized universities and research institutions who can offer local providers additional technical knowledge and help with training and technical assistance delivery skills. As the rural businesses begin paying for the consultancies offered by this growing cadre of local providers, the provision of such services is starting to operate on a more commercially sustainable basis.



Market Watch, a regional and national commodity price monitoring service, is one of the program's most successful initiatives. By providing herders with prices on a timely basis, it has enabled them to market their products at the highest possible price. Prices and price trends are provided through SMS, radio, a monthly magazine, and television as part of a larger business information dissemination effort that also helps target audiences to apply the information appropriately. Although not yet covering its costs, the shift into more popular and less expensive forms of media, with better access and advertising revenue opportunities, is enabling Market Watch to move toward greater financial viability.

For more information, visit <http://www.mercycorps.org.mn> or email Tracy Gerstle at [tgerstle@mercycorpsdc.org](mailto:tgerstle@mercycorpsdc.org).  
Sources: Mercy Corps 2005c, 2005h.

important to help establish input supply businesses for emerging economic activities in rural areas.<sup>79</sup>

Establishing and/or strengthening support markets in remote rural areas is challenging. Practitioners are finding that existing or potential business service providers—either within or outside value chains—often lack the skills and information necessary to deliver useful services to rural producers. One strategy to address this problem is to link rural service providers to more skilled urban providers and/or link them with national or regional sources of information.<sup>80</sup>

Because most remote rural people are also farmers and/or livestock owners, and are also very poor, the lessons above apply in many instances as well. Their application to remote areas takes more time, and goals and expectations need to be adjusted accordingly. A gentle, gradual approach is called for in these delicate markets, and challenging physical and social environments. The danger, as with any of the above strategies, is in giving up on markets and attempting to substitute development subsidies for the market, creating dependency and potentially increasing isolation after the subsidies end.

Discussions among practitioners on combating poverty in rural areas, stabilizing disrupted markets, and reaching the entrenched poor have concluded with three common remarks:

1. Many very poor and vulnerable people are affected by multiple barriers. For example, in Sierra Leone, there are rural women who were poor and discriminated against before the war, who are now facing disrupted markets, and are potentially HIV positive from being raped during the conflict. Understanding the unique circumstances of target populations is key to helping them find sustainable paths to livelihood security.
2. These multiple barriers include social, health, education, and infrastructure barriers, which need to be addressed in order for the very poor and vulnerable to be able to participate in economic activities.
3. There is little documented experience in attempting to help markets reach these populations, but many creative ideas and much enthusiasm. Action research is called for.

<sup>79</sup> Mercy Corps 2005c.

<sup>80</sup> Mercy Corps 2005a, 2005d.



## 5. Developing Health Care, Water, Sanitation, and Education Markets that Serve the Poor

Reducing poverty involves helping the poor gain access to key social and physical infrastructure such as health care, water, sanitation, and education. This infrastructure is typically considered a public good, to be provided by public-support agencies. However, in developing countries, the progress of public programs in increasing access, particularly for the rural poor, has been painfully slow and the quality offered by publicly funded sources is often questionable.<sup>1</sup> A vibrant private sector has emerged to fill many gaps in health care, water, sanitation, education, and other traditionally public services.<sup>2</sup> Although it is widely believed that such markets cater to the urban elite, there is evidence of emerging markets that serve the poor. Indeed, there is evidence that even very poor people prefer the commercially-provided services available to them to publicly-provided ones. Private services often offer more choice, more dignity, better quality, more convenience, and greater accountability.<sup>3</sup> Thus, emerging evidence highlights the potential for markets to deliver some traditionally “public” services to the poor on a larger scale.<sup>4</sup>

What are these markets like, and how can development initiatives stimulate broader outreach and improved quality? Looking at them from an M4P perspective, health care, water, sanitation, education, and other social and physical infrastructure markets are core markets that target poor people as consumers. Often SEs are the retailers selling products and services to the poor. These private providers might be retired doctors, midwives, traditional healers, teachers who decide to launch a private school, former government health and sanitation workers, or just entrepreneurs

**Key Question:**  
**What should these markets be called?**  
*Health care, water, sanitation, education, irrigation, electricity, communications . . . all are often called public services, and investments normally need to be made in public infrastructure to make these services available. When the private sector takes over, what should it be called? Privatization connotes a transfer of responsibilities, agencies, and activities, often to large quasi-public companies. This does not characterize the markets in question. And, it does not make sense to call them “private markets for public goods.” How about markets for “social and physical infrastructure” or markets for “poverty reducing goods and services”? Common vocabulary would support interdisciplinary dialog and learning.*

who see an opportunity and hire the expertise they need. The emerging lessons and strategies are remarkably similar to those that have come out of efforts to help poor producers integrate into markets and value chains. For example, experience to date emphasizes the need to build on existing market systems, using a gentle but proactive approach to improve access and quality. Professionals in these fields are also emphasizing the importance of a conducive policy and regulatory environment to allow markets to function rather than one that stifles markets with restrictions that protect the public

<sup>1</sup> Frias and Mukherjee 2005; Tanburn 2005; Tooley and Dixon 2003.

<sup>2</sup> Solo 2003; Tanburn 2005; Tooley and Dixon 2003.

<sup>3</sup> Tanburn 2005; Tooley and Dixon 2003.

<sup>4</sup> CMS 2003; Frias and Mukherjee 2005; Solo 2003; Tanburn 2005; Tooley and Dixon 2003.

suppliers.<sup>5</sup> There are even nascent strategies to ensure that support services and infrastructure are in place for the SE providers, and sometimes to develop these support markets. The similarities between the emerging lessons in the two approaches indicate that increased communication and information sharing between private-sector development and related fields with social and physical infrastructure fields would contribute significantly to making markets work better for the poor as both producers and consumers.

This chapter focuses on four particular markets for services that have traditionally been publicly provided: health care, water, sanitation, and education. It provides a small taste of what the development community is learning about these markets for the poor and what development agencies can do to strengthen them. All four markets offer products and services that can significantly reduce poverty, and in all these markets SEs are the main private providers.

## 5.1. Characteristics of Private Health Care, Water, Sanitation, and Education Markets

In Hyderabad District in India, official figures indicate that there are almost one thousand private schools, 43 percent of the total, and that 61 percent of all students attend these private schools. Research on a selected basket of these schools serving the poor in urban slums found average fees of about two British pounds per month. The average student-teacher ratio was 29:1, as compared to 50:1 found in a study of government schools. Fathers of students were mainly daily-paid laborers and 30% of mothers were illiterate. It was found that running a school, even for low-income families, was a potentially profitable undertaking with estimated profits of about 25 percent.<sup>6</sup>

In Uganda, more than 60 percent of people seek health care from the private sector, even though free public health care is available. There are a wide variety of private health care providers serving the poor, some of which are well organized. For example, a study identified eight hundred private-provider midwives in Uganda, many of whom are active members of the Uganda Private Midwives Association.<sup>7</sup>

In Latin America, small-scale water providers serve approximately 25 percent of the urban population. A study in Asuncion and Ciudad del Este in Paraguay, carried out in 1998, found that one-third of all water connections serving up to half a million persons had been made in these two cities over the twenty-year period preceding the study. The connections had been provided by 350–600 independent aguateros at a cost of roughly US\$250 per household and offered water at a price consistently below the charges levied by the public water company.<sup>8</sup>

Overall, research indicates the following positive characteristics of private-sector health care, water, sanitation, and education markets:<sup>9</sup>

- **Growing demand:** For example, demand for water services from private providers is growing at approximately 3 percent per year in urban Africa.
- **A diversity of providers:** For example, in Latin America, small-scale water providers range from independent borehole fed networks serving as many as fourteen thousand households to mobile water tankers serving individual households and institutions.
- **Responsive providers:** For the most part, private providers are responsive to consumer demands. For example, many Latin American private water providers offer quick connections and variable payment terms.
- **Cost effectiveness:** Studies indicate that private providers are often more cost effective than their public counterparts.

<sup>5</sup> CMS 2003; Solo 2003; Tooley and Dixon 2003.

<sup>6</sup> Tooley and Dixon 2003.

<sup>7</sup> CMS 2003.

<sup>8</sup> Solo 2003.

<sup>9</sup> CMS 2003; Frias and Mukherjee 2005; MEDA 2005c; Solo 2003; Tooley and Dixon 2003.

- **Longevity:** For example, many private water providers in the Paraguay study referenced above had been around for several decades, and some for at least seventy years.
- **Competition:** For example, in the study of schools in Hyderabad, quoted above, parents usually chose a school for their children by comparing at least three available options.
- **Accountability:** Private providers are more accountable to consumers than public providers. For example, the study of schools in Hyderabad found that schools' accountability to parents was a key factor in parents' decision to send their children to a private school.

In addition, studies highlight the following challenges:<sup>10</sup>

- **A lack of information:** Consumers, particularly low-income families, often lack sufficient information to make informed choices about available products and services and to choose among private providers and between private and public providers.
- **Variable quality:** Private providers often offer better quality services than their public counterparts. Nevertheless, quality in the private sector is variable.
- **An unclear or adverse regulatory environment:** For example, private water providers in Latin America operate in legal limbo, neither recognized by the government nor explicitly illegal.
- **Limited outreach:** Although these markets have emerged in some regions and circumstances, they are notably absent in others. And, affordability remains an issue for the very poor and vulnerable.

These characteristics indicate that private markets have many strengths in serving the poor but that development agencies could play a useful role in strengthening information and quality, increasing outreach and improving the regulatory environment.

## Example 44: Helping Private Schools Better Serve the Poor

### CfBT in India

Following a study of private schools serving the poor in urban slums of Hyderabad, India, CfBT Research and Development piloted several strategies to improve the capacity of fifteen of these schools. The program provided the schools with management training and teacher training in conjunction with a private, for-profit education company. The program also explored improvements in English-language teaching through low-cost audiocassette materials. While these services were offered to the schools for free, the aim of the project was to identify low-cost strategies for school improvement that could be accessible to other schools on a commercial basis. Finally, the program piloted a voucher scheme to subsidize the cost of private education for the poorest students at the schools. As a result of the study and the pilot program, CfBT developed recommendations for improving private schools for the poor and making a private education accessible to even poorer families than those currently served.

For more information, see <http://www.cfbt.com>.  
Source: Tooley and Dixon 2003.

## 5.2. Strengthening Private Health Care, Water, Sanitation, and Education Markets

Given the increasing evidence that private health care, water, sanitation, and education markets have potential to serve the poor, what can development agencies do to improve access and quality in their drive to reduce poverty? Recent studies provide recommendations and practitioners are

<sup>10</sup> Ibid.

## Example 45: Stimulating the Market for Hygienic Sanitation

### IDE in Vietnam

In 2003 International Development Enterprises (IDE) launched a project, funded by DANIDA, to stimulate the acquisition and use of hygienic sanitation in villages in two rural provinces in Vietnam. IDE developed a range of latrines that were affordable and appealing to potential customers. IDE then developed—through capacity building, business development support, and credentialing—a local network of masons to build the latrines for households. To better understand the drivers of sanitation demand, IDE and the masons assessed the consumers' willingness to pay for and perceived benefits of sanitation. IDE used the assessment results and professional advertising assistance to develop and deliver



a sophisticated marketing campaign to promote the benefits of latrines and to change rural consumers' purchase and use behavior. For example, research showed that the status and convenience benefits of having a latrine held a far stronger appeal for potential customers than disease prevention benefits, and so social status and convenience were key benefits promoted in the campaign. Unlike traditional sanitation projects, no capital cost subsidies were employed to stimulate demand.

People in the project area are appreciably poorer than most Vietnamese—their average per capita annual income is only US\$126.

However, within a year of the project's commencement half of those officially classified as poor had invested in sanitation—on average \$55 per household, 15 percent of their annual household income. None applied for loans available from state agencies because of the paperwork involved and because the minimum amount of \$200 was more than they needed. Most used savings from agricultural earnings or borrowed from relatives living in urban areas.

Within a year of project intervention, there was a 100 percent increase in sanitation access compared to the pre-project access rate. The project highlights the importance of never underestimating a population's willingness to pay for sanitation, provided that quality products and services are offered and are effectively communicated.

For more information, contact Jaime Frias, IDE, at [jaime@idevn.org](mailto:jaime@idevn.org) or visit <http://www.idevn.org> and <http://www.ideorg.org>. Or, contact Nilanjana Mukherjee, WSP-EAP, at [wspeap@worldbank.org](mailto:wspeap@worldbank.org) or visit <http://www.wsp.org>.

Source: Frias and Mukherjee 2005.



experimenting with a range of strategies. A sample follows.

■ **Giving vouchers to poor consumers to use at the private provider of their choice.** For example, two programs—in Uganda and Tanzania—are experimenting with vouchers for insecticide-treated bed nets to prevent Malaria, particularly among pregnant women and children.<sup>11</sup>

■ **Promoting public-private partnerships.** Several recent programs promote public-private partnerships in the provision of health care. For example, a program in Uganda developed a distribution network for contraceptives through both private outlets and public health facilities.<sup>12</sup>

■ **Developing and testing appropriate and affordable health products.** The poor face different health issues than the upper or middle classes. Expensive, standard health care is unaffordable and sometimes not relevant for the health issues facing the poor. Development programs can perform and fund the essential upfront research in developing appropriate health products for the poor. For example, a program in Uganda developed an inexpensive clean delivery birth kit. This effort can be combined with demonstrations or social marketing to jumpstart markets.<sup>13</sup>

■ **Understanding and stimulating consumer demand.** Practitioners emphasize the importance of consumer research to gain an understanding of consumer behavior, the drivers of consumer demand and consumer preferences. This is particularly important for those services for which demand may be initially weak, such as HIV/AIDS testing and counseling and sanitation services.<sup>14</sup> Using information from market research, programs are developing innovative and sophisticated

communications strategies to raise poor consumers' awareness of and demand for these types of services. Drama, clothing, and village contests to develop songs and slogans are a few of the more novel mediums. Working with community leaders to raise awareness is apparently an effective demand stimulation strategy. Reports from several programs emphasize that their initial investment in consumer research and professional marketing expertise, born by the project, was a critical success factor in increasing demand for particular services.<sup>15</sup>

■ **Supporting private providers.** Practitioners are experimenting with a range of strategies to improve quality and outreach of private providers. For example, some programs are offering or linking private providers to technical training, management training, and/or credit.<sup>16</sup> Programs developing health care markets are training health product retailers or distributors to provide consumers with related health information.<sup>17</sup> Developing associations of private providers can promote peer learning, increase associations' capacity to advocate, and, in some cases, enable associations to offer members value-added support.<sup>18</sup> Developing systems for endorsement or accreditation of service providers gives consumers credible information to differentiate among providers and gives providers an incentive to upgrade quality.<sup>19</sup> One program recommends establishing an education consulting firm that would offer private schools cost-effective strategies for improvement and accreditation.<sup>20</sup>

<sup>11</sup> CMS 2003; MEDA 2005c; Tooley and Dixon 2003.

<sup>12</sup> CMS 2003; MEDA 2005c.

<sup>13</sup> CMS 2003; Frias and Mukherjee 2005.

<sup>14</sup> Ibid.

<sup>15</sup> CMS 2003; Frias and Mukherjee 2005.

<sup>16</sup> Ibid.; Tooley and Dixon 2003.

<sup>17</sup> CMS 2003; MEDA 2005c.

<sup>18</sup> CMS 2003; Solo 2003.

<sup>19</sup> CMS 2003; Frias and Mukherjee 2005.

<sup>20</sup> Tooley and Dixon 2003.



## Example 46: Developing the Capacity of Private Midwives

### CMS in Uganda

As part of a larger, USAID-funded program in Uganda, Commercial Market Strategies (CMS) assisted the Uganda Private Midwives Association (UPMA) to increase outreach of key health products and services to low-income populations. Many of the approximately eight hundred private midwives identified in the study are members of the association. On a fee-for-service basis, these midwives oversee deliveries, provide antenatal and postnatal care, immunizations, and well-baby care, family planning services, and management of STDs, HIV counseling, and health education. CMS worked with the UPMA to expand its membership base and provide value-added services to members. For example, CMS helped the UPMA develop and sell clinic signposts. Members use signposts to announce their membership in the association, since clients associate UPMA membership with higher-quality care. CMS provided funding and technical support for UPMA's regional peer education and support program that uses UPMA members as trained volunteers to advise fellow midwives on ways to improve the quality of their services and facilities. CMS has provided training in basic skills to nearly 350 private midwives and has developed a micro-credit program for midwives. After implementing changes with the help of CMS, UPMA experienced a 35 percent increase in dues paying membership. Service quality improved among providers who received loans as well as those who received peer visits.

For more information, see <http://www.psp-one.com>.

Source: CMS 2003.

■ **Improving the enabling environment for private service providers.** Increasing governments' and development programs' recognition of private providers may be a critical first step in addressing the enabling environment constraints to the development of private health care, sanitation, water, and education markets. This view was shared by a number of private providers interviewed in studies.<sup>21</sup> Beyond that, developing a more supportive regulatory framework has the potential to greatly diminish constraints faced by the poor in accessing private health care, water, sanitation, and education.<sup>22</sup>

As in other fields using the M4P approach, strengthening the capacity of private health, education, water, and sanitation markets to effectively serve the poor requires a combination of strategies aimed at improving core markets that deliver services to the poor, support markets for private service providers, and the enabling environment for private-sector service provision.

<sup>21</sup> CMS 2003; Solo 2003; Tooley and Dixon 2003.

<sup>22</sup> Solo 2003; Tooley and Dixon 2003.



## 6. Conclusion: A Challenge to Stakeholders in Making Markets Work for the Poor

Last year, the BDS seminar in Chiang Mai ended with reflections on the BDS field and several challenges for moving forward.<sup>1</sup> The BDS field was struggling with its identity because the field appeared narrow and limited, particularly to those outside the enterprise development specialty. BDS experts still had difficulty showing a proven link to poverty alleviation. Yet, the BDS field had made significant progress in strengthening local systems so that they included and benefited small enterprises. Other fields had also made progress in strengthening various types of market systems—sometimes independently, sometimes through cross-fertilization among fields. Two challenges related to this dilemma were presented:

1. How can we get more market-oriented principles and practices into our work in private-sector development and other fields?
2. How do we accelerate the right kind of integration of poor people, particularly those at the bottom of the poverty pyramid, into economies and markets?

Less than a year on, significant progress towards addressing these challenges has been made. Experts, donors, and practitioners are indeed talking less of BDS, and other specific fields, in isolation. They are also talking more about reaching down market to the entrenched poor and testing market development principles in challenging circumstances such as disrupted markets and remote rural areas. Thoughtful experts, donors, and practitioners in many fields, including BDS, are embracing an approach of making markets work for the poor and recognizing that a multidimensional approach, often incorporating several different fields, may be the most appropriate for achieving the goal underlying the M4P “slogan.”

There is, however, a danger of picking up a new slogan but failing to implement it. How will we rigorously build on past experience, experiment with new strategies, learn systematically, and build our capacity as a development community? This Reader concludes with three of the most pressing challenges to ensuring that the market-based approaches described here contribute to significant poverty reduction.

### 6.1. Who Are We and What Principles Do We Strive For?

As the M4P approach moves forward, it is important for experts, donors, and practitioners to benefit from both the increased integration of fields within market development programs as well as the pursuit of excellence and learning that can be fostered, in part, by maintaining cohesiveness as a community of practice. The trend toward broader market development programs has enriched many development fields concerned with the poor by promoting communication among traditional development “boxes”—agriculture, LED, private-sector development, infrastructure, BDS market development, small enterprise development, and even health and education. But it has also weakened the cohesiveness of more narrow, individual fields in identifying best practices and pushing toward common principles for program design and implementation. It has not yet led to a new, cohesive community of practice that can perform these roles.

The experience of the BDS market development field is instructive in facing this challenge. The popularity of BDS market development programs in the last five years has resulted in many successes and a great deal of useful learning, but

<sup>1</sup> McKee 2005.

also a relatively high number of traditional, subsidized programs operating under a BDS banner. Such programs have confused the field and undermined its mission and support. With the advent of broader programs and new language, this cycle may repeat itself. Some programs are using past lessons and new ideas to make market systems work better for the poor and stimulating learning about this approach. But, there are also already a number of programs that claim to be developing markets for the poor while ignoring past lessons from programs developing BDS markets, value chains, and other markets.

The result of these worrying trends has been confusion as to who we are as a field and the principles of good practice that should cut across programs aiming to strengthen markets for the poor. Experts, donors, and practitioners risk losing critical lessons learned and principles developed for promoting systemic change—lessons and principles that can be applied to integrating the poor into markets and increasing program outreach, sustainability, cost effectiveness, and, ultimately, impact on the poor. The challenge is to rapidly redefine work in a variety of fields incorporating both past lessons and new ideas, and to communicate this broadly within specific fields and to the broader development community.

## 6.2. How Can We Deepen Our Knowledge and Skill Base?

At this point, a variety of fields have recognized the importance of strengthening existing market systems in order to achieve sustainable and widespread development outcomes. For example, four years after the formal publication of the BDS Guiding Principles, the basic concept and terminology around developing BDS markets has become fairly widespread within and beyond small enterprise development communities of practice. However, many experts, donors, and practitioners recognize that a broader approach is necessary to make a more significant impact on poverty alleviation. The M4P approach and efforts to integrate SEs into value chains offer strategies for combating poverty on a sustained basis.

Unfortunately, many agencies that have committed to making markets work better for the poor have not yet been able to translate this commitment into practice due to a lack of capacity and skills within and outside their agencies. Two key challenges face this emerging approach.

First, this new area of practice needs a name to help focus communities of practice around knowledge sharing and to communicate its principles and approaches to other development stakeholders. No one wants to get stuck in a box, but without a clear product to sell, no one can buy. Experts, donors, and practitioners in different fields need to commit to sharing lessons from their experiences that are relevant to M4P, in terms that other fields can understand. And, those interested in M4P in many fields need to generate more systematic mechanisms for sharing knowledge and pushing the M4P field toward progressively exploring and defining best practice.

Second, some agencies have invested significantly in training staff, sharing lessons, and promoting discussions within their agencies. However, other agencies have been less systematic and rigorous in terms of making sure that staff at all levels understand the principles and can implement programs that develop markets for the poor. Project designers and implementers need a solid skill base in two key areas:

1. **Market assessment and project design.** Many donor and implementing agencies have committed to market development principles at their highest levels. What varies is the extent to which development organizations have transmitted the capacity to understand and implement market development programs throughout their agencies—particularly to field staff and developing country partners.

2. **Specific strategies or program activities that market assessments identify as critical to developing markets for the poor.** Market assessments are increasingly open ended and can lead to a wide range of recommendations for developing core and support markets to include and benefit the poor and for improving the business enabling environments. The agencies designing M4P programs may or may not have the capacity to implement the recommended program activities. Agencies need to consider more carefully and systematically how they will build, hire, or develop the expertise required of these new, broader, and more sophisticated initiatives.

The capacity to face these challenges exists, given the wealth of expertise from a range of fields coming together to make markets work for the poor, and the tremendous drive stimulated by the Millennium Development Goal of cutting extreme poverty in half by the year 2015.

### 6.3. How Can We Overcome Resistance to Making Markets Work for the Poor?

The M4P approach addresses several arguments against using a BDS market development approach. Resistance to the BDS market development approach came from several fronts. On the policy front, some donors, researchers, and practitioners felt that developing BDS markets was too narrow a focus to create significant impact. The M4P framework addresses this concern by developing value chains, support markets, and addressing the enabling environment. Another argument against BDS market development was that business services were not seen as relevant to the poor, and it was felt that commercial markets could not reach the very poor and vulnerable. The M4P framework addresses this concern by placing the poor squarely in the title and purpose of the approach and by specifically identifying and promoting strategies that reach down market. Although debate will always occur about the fairness and ability of commercial markets to reach the poor, the M4P approach represents a significant new attempt to bring together the power of economic growth and

poverty-oriented strategies to combat poverty on a sustainable basis.

Another source of resistance, however, and often more powerful, is resistance against change that comes from development practitioners' fear of losing professional status, reputation, budget, or even their jobs. Overcoming these various types of resistance calls for developing a strong community of practice around making markets work for the poor that promotes open communication, sharing lessons, and learning. To the extent that we, as development practitioners, can thoughtfully adjust our perspectives and approaches by both building on past lessons and being open to new ideas, we can have a more significant impact on poverty eradication.

# Appendix: Websites, Training Courses, and Resources

## A.1. Websites

### Action for Enterprise



<http://www.actionforenterprise.org>

Provides a strategy and tools for assessing markets and designing programs that develop value chains and support markets.

### Asian Development Bank (ADB) and Department for International Development (DFID) Making Markets Work Better for the Poor



[http://www.dfid.gov.uk/news/files/trade\\_news/adb-workshop.asp](http://www.dfid.gov.uk/news/files/trade_news/adb-workshop.asp)

Documents and presentations from ADB and DFID's cosponsored 2005 workshop in Manila, "Making Markets Work Better for the Poor."



<http://www.markets4poor.org/index.php>

Contains information about the DFID/ADB regional technical assistance project in Vietnam, Laos, and Cambodia, as well as news and events, research, publications, and links.

### BDS Knowledge



<http://www.bdsknowledge.org>

An interagency information exchange for sharing information about donor-supported work to make markets work better for the poor, with a focus on small enterprise development. Includes links to hundreds of documents from more than seventy countries. Constantly updated and features a "What's New" section for frequent visitors.

### Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung—Sektorvorhaben WiRAM



<http://www.wiram.de>

The joint BMZ and GTZ thematic program on economic reform and market development. The site includes content on general concepts, sector-based strategies, LED, and M&E, and includes a list of links. Some documents are in English but the majority of the site is in German.

## Business Environment



<http://www.businessenvironment.org>

An interagency information exchange for sharing information about donor-supported work to achieve pro-poor growth through reforming the business enabling environment.

## Center for International Private Enterprise (CIPE)



<http://www.cipe.org/index.htm>

An affiliate of the U.S. Chamber of Commerce, CIPE works to build democracy and market economies around the world. Its strategy focuses on combating corruption and promoting sound corporate governance measures.

## Development Gateway



<http://www.developmentgateway.org>

An interactive site that brings together people, resources, and information on development and poverty reduction. It supports open and competitive e-tendering service for public procurement (dgMarket), online communities of information and resources on major development topics (Topic Pages), local information service providers (Country Gateways), and an online directory of the development activities of organizations worldwide (AiDA).

## Directory of Development Organizations



<http://www.devdir.org/>

A comprehensive source of reference for development practitioners, researchers, donor employees, and policymakers committed to good governance, sustainable development, and poverty reduction. The site lists by country 43,500 development organizations as well as web addresses for the best development resources available.

## Enterweb: The Knowledge Portal for Small Business



<http://www.enterweb.org/>

An information gateway that leads to information sources on entrepreneurship, small business, finance, international trade, and the economy for both developed and developing countries.

## The Global Value Chain Initiative



<http://www.ids.ac.uk/globalvaluechains/>

A multiyear effort to test and develop the GVC framework with the aims of creating greater analytical precision, intellectual impact, and policy relevance. Supported by the Rockefeller Foundation, it is an industry-centric view of economic globalization that highlights the linkages between economic actors and across geographic space.

**GRET: Groupe de recherche et d'échanges technologiques (Research and Technological Exchange Group)**

<http://www.gret.org>

An international association concerned with the interface between research and development. The site links to online resources, publications, and documents. The document search is in French, but the resulting documents are a mixture of French and English.

**GTZ, Advanced Social and Sustainable Economic and Technical Services for Asia (Assets for Asia)**

<http://www2.gtz.de/assets-asia/>

Assets for Asia is one of GTZ's networks, involving more than forty projects and programs implemented by GTZ in Asia. It focuses on technical cooperation in the field of economic reform and development of market systems.

**GTZ, Knowledge Systems in Rural Areas**

<http://www2.gtz.de/agriservice/>

This GTZ sector project began in 1991. It initiates, collects, analyzes, and processes experiences and concepts from Africa, Asia, and Latin America in key areas of development work in rural areas in order to make better and more efficient use of technical and organizational knowledge.

**Inter-American Development Bank (IADB), Sustainable Development Department (SDS)**

[http://www.iadb.org/sds/index\\_e.htm](http://www.iadb.org/sds/index_e.htm)

SDS focuses on the creation and dissemination of knowledge and information and the design of pilot programs in innovative areas that can be mainstreamed into future bank lending. It also promotes special events such as seminars, workshops, conferences, and training events and publishes technical papers, best practices reports, and strategy and policy papers, as well as books and other special reports.

**International Labour Organization (ILO), SEED Programme**

<http://www.ilo.org/seed>

SEED is an ILO InFocus program that seeks to unlock the potential for creating more and better jobs in the small enterprise sector. SEED builds on the ILO's thirty years of experience in supporting small enterprise development. Its mission is to strengthen understanding of how development of this economic sector can better serve employment goals through policy guidance, technical assistance, and international advocacy.



### **The Microfinance Gateway**



<http://www.microfinancegateway.com/>

A comprehensive online resource for the microfinance industry. It includes research and publications, specialized resource centers, organization and consultant profiles, and the latest news, events, and job opportunities in microfinance.

### **Overseas Development Institute (ODI), Agricultural Research and Extension Network (AgREN)**



<http://www.odi.org.uk/agren/>

AgREN links policy makers, practitioners, and researchers in the agriculture sector of developing countries. It provides members with up-to-date information and the opportunity to maintain a dialogue with others who have similar professional interests.

### **Regoverning Markets Project**



<http://www.regoverningmarkets.org/>

A collaborative research project that analyzes growing concentration in the processing and retail sectors of national and regional agri-food systems and considers the impacts on rural livelihoods and communities in Central and Eastern Europe, Central and South America, Southern and Eastern Africa, South Asia, and Southeast and East Asia.

### **The SEEP Network, Guide to Business Development Services and Resources**



<http://www.seepnetwork.org/bdsguide>

The SEEP BDS working group's online guide. It is now interactive and features new content, a new format, and a new address.

### **Swiss Agency for Development and Cooperation (SDC), Small Enterprise Development (SED)**



<http://www.intercooperation.ch/sed>

Managed by Intercooperation and includes news, reports, papers, tools, and links directed to the Swiss SED community.

### **Swiss Agency for Development and Cooperation (SDC), Community of Practice on Value Chains in Rural Development**



<http://www.sdc-valuechains.ch/>

Hosts a facilitated debate, open to all, on how to develop value chains in rural areas.

**United Nations Millennium Development Goals**

<http://www.un.org/millenniumgoals/>

Explains and provides updates on the UN Millennium Development Goals.

**United States Agency for International Development–Microenterprise**

<http://www.microLINKS.org>

A knowledge-sharing source of information, applications, and tools designed to improve the impact of USAID microenterprise programs and activities. The site provides access to information on best practices; approaches from USAID missions, partners, and practitioners; and a library of documents, reports, and tools.

**Women in Informal Employment: Globalizing and Organizing (WIEGO)**

<http://www.wiego.org/index.htm>

A global research-policy network that seeks to improve the status of the working poor, especially women, in the informal economy through better statistics, research, programs, and policies and through increased organization and representation of informal workers.

**World Bank Group, Agricultural and Rural Development Department (ARD)**

<http://lnweb18.worldbank.org/ESSD/ardext.nsf/11ByDocName/AboutUs>

ARD works to reduce poverty through sustainable rural development by providing analytical and advisory services to the Bank's regions on a wide range of agriculture and rural development topics.

**World Resources Institute**

<http://www.nextbillion.net/confresources>

Contains resources from the 2004 WRI conference, "Eradicating Poverty through Profits: Making Business Work for the Poor."

## A.2. Monitoring and Evaluation Websites

Several references, particularly for those interested in innovations in qualitative and participatory methods and measuring social changes, follow:

### Enterprise Development Impact Assessment Information Service (EDIAIS)

 <http://www.enterprise-impact.org.uk>

Commissioned by DFID and managed by Wise (Women in Sustainable Enterprise) Development, the site provides a range of information on how to assess the impact of enterprise development programs. It includes a variety of papers, case studies, and tools, an enquiry desk, and a comprehensive list of links.

### Social Performance Management

 <http://www.ids.ac.uk/impact/>

From Imp-Act and its partners, this site measures the extent to which an organization can identify and achieve its social mission.

### Outcome Mapping

 [http://web.idrc.ca/en/ev-9330-201-1-DO\\_TOPIC.html](http://web.idrc.ca/en/ev-9330-201-1-DO_TOPIC.html)

From the Canadian International Development Research Centre (IDCR), this site focuses on monitoring and evaluating the influence of a program on the roles its partners (people, groups, and organizations) play.

### Impact Monitoring and Assessment

 [http://www.cde.unibe.ch/Tools/IM\\_Ts.asp](http://www.cde.unibe.ch/Tools/IM_Ts.asp)

From the Centre for Development and Environment (CDE) for SDC and GTZ, this site hosts a set of guidelines and tools for assessing rural development projects that could be adapted for other types of development interventions.

## A.3. Training Courses



### **Action for Enterprise (AFE)**

AFE offers a series of five-day training workshops that present the latest methodologies and practice for designing subsector and value-chain programs that incorporate strategies for sustainable impact. Participants will learn how to design programs that result in commercially viable solutions to MSME constraints such as market access, input supply, technology/product development, management training, policy reform, and access to finance. Examples will be used from enterprise development programs and practitioners worldwide. The training targets those who wish to improve their facilitation skills and design programs that respect the latest thinking in value chain and market development principles. For more information, see <http://www.actionforenterprise.org/training.htm>.

*AFE Value Chain Program Design: Promoting Commercially Viable Solutions for MSMEs*

12–16 September 2005 (Chiang Mai, Thailand)

5–9 December 2005 (Washington, D.C., USA).



### **Centro Internacional de Agricultura Tropical (CIAT) and Centro Agronómico Tropical de Investigación y Enseñanza (CATIE)**

CIAT is a not-for-profit organization based in Cali, Colombia, that conducts socially and environmentally progressive research aimed at reducing hunger and poverty and preserving natural resources in developing countries.

CATIE is an international institution based in Turrialba, Costa Rica, that aims to contribute to rural poverty reduction in tropical America by promoting competitive and sustainable agriculture and natural resources management through higher education, research, and technical cooperation. CATIE and CIAT jointly award a diploma in Rural Enterprise Development. The curriculum consists of four international training courses, two of which will be offered in 2005. For more information, see <http://www.ciat.cgiar.org/agroempresas/ingles/>.

*CIAT/CATIE Rural Enterprise Development Diploma Module 3: Insertion of Rural Enterprises in International Markets: A Value Chain Approach*

22 August–2 September 2005 (Turrialba, Costa Rica)

*CIAT/CATIE Rural Enterprise Development Diploma Module 4: Enterprise Development Services to Promote the Competitiveness of Rural Enterprises*

10–19 October 2005 (Turrialba, Costa Rica)



### **Committee of Donor Agencies for Small Enterprise Development**

The committee promotes enterprise development, particularly for small enterprises, in developing countries. It provides a forum, in which member agencies can exchange information about their programs, and the lessons learned through those programs. For more information, see <http://www.sedonors.org/events/event.asp?eventid=4>.

*Conference on Reforming the Business Environment: From Assessing Problems to Measuring Results* (participation by invitation only)

29 November–1 December 2005 (Cairo, Egypt)



### **Conservation International (CI) and George Washington University**

To meet the urgent need for ecotourism capacity building and training, CI has partnered with George Washington University, a leader in ecotourism and sustainable tourism education, to develop the Ecotourism Learning Program. The program includes six core courses, one elective, and an orientation course for local training institutions. It is designed for community extensionists, economists, and other development specialists, park and protected area managers, government officers, educators, and program managers and directors of nongovernment organizations and private associations. For more information, see <http://www.conservation.org> and <http://www.ecotour.org>.



### **Inter-American Development Bank (IADB)**

IADB is a regional development bank that attempts to accelerate economic and social development of regional developing member countries. Every year more than 1,000 practitioners from all over Latin America and the Caribbean meet at the Inter-American Forum on Microenterprise to discuss the latest best practices for the development of the microenterprise sector. In 2005, the event will provide practitioners with information through technical sessions on the subjects of microfinance, enterprise development, business environment, and social entrepreneurship. For more information, see <http://www.iadb.org/foromic/>.  
*IADB Expanding the Frontiers of Microenterprise: The Commitment to Reach Everyone*  
5–7 October 2005 (Santa Cruz de la Sierra, Bolivia)



### **International Labour Organization (ILO), International Training Centre**

The ILO International Training Centre, based in Turin, Italy, works to enhance the capacity of governments, employers' organizations, workers' organizations, and other social and economic actors to play an effective role in the economic and social development of their countries and regions.

*From BDS Market Development to Making Markets Work for the Poor: How Broad Should We Go?*  
19–23 September 2005 (Turin, Italy)

<http://learning.itcilo.org/entdev/bdsseminar/>

*Creating an Enabling Environment for SED*

17–28 October 2005 (Turin, Italy)

<http://learning.itcilo.org/entdev/ee/>

*Managing Business Development Services for Increased Impact*

5–17 December 2005 (Egypt)

<http://intranet.itcilo.it/Calendar/Courses.nsf/>

[CourseListNew?OpenForm&Region=Inter-regional&Area=Enterprise\\*Development](http://intranet.itcilo.it/Calendar/Courses.nsf/CourseListNew?OpenForm&Region=Inter-regional&Area=Enterprise*Development)

*Diploma in Market-Oriented Small Business Development Services (MOSBDS)*

A four-month internet course offered twice annually in July and February

<http://learning.itcilo.org/bds/>



### **Making Cents International**

Making Cents International is a consulting firm based in Washington, D.C., committed to job creation and improved livelihoods and opportunities through training and services for entrepreneurs, in the United States and worldwide. For more information, see <http://www.makingcents.com>.

*BDS Guiding Principles: Tools and Best Practices*

One-day workshops and five-day courses offered for MSME development organization staff upon request.



### **The SEEP Network**

The SEEP Network is an organization of more than fifty North American private and voluntary organizations that support micro and small business and microfinance institutions in the developing world. Its mission is to advance the practice of micro and small enterprise development among its members, their international partners, and other practitioners. For more information see [www.seepnetwork.org](http://www.seepnetwork.org).

*SEEP Network 20th Anniversary Annual General Meeting*  
October 2005



### **Southern New Hampshire University (SNHU) School of Community Economic Development (SCED)**

The SCED at SNHU is the first accredited academic program in the United States to confer advanced degrees in community economic development. Each year, the school sponsors the Microenterprise and Development Institute (MDI-NH), a three-week training program designed for microenterprise practitioners and newcomers alike. Participants learn from some of the top microfinance and BDS practitioners in the field and network with peers from around the globe. In 2005 the institute will offer a full BDS track to include four courses.

SNHU/SCED, together with the North Turfloop Graduate School of Leadership in Polokwane City, South Africa, will cosponsor the Microenterprise and Development Certificate. Courses of study range from one to three weeks, require English proficiency, and are designed for practitioners already working in the field of microenterprise development and microfinance.

*SNHU/SCED Microenterprise and Development Institute*  
13 June–1 July 2005 (Manchester, New Hampshire, USA)

<http://www.snhu.edu/MDI/>

*SNHU/SCED and University of the North Turfloop Graduate School of Leadership Second Annual Microenterprise and Development Certificate*

23 January–10 February 2006 (South Africa)

<http://mdi-sa.org/>



### **The Springfield Centre for Business in Development**

The Springfield Centre is an independent consulting, training, and research organization based in Durham, UK, that specializes in private-sector development in low- and middle-income economies. Current training programs, including “Making Markets Work for Business and Income Growth,” recognize that market development is a central challenge in promoting inclusive and effective private-sector development and reinforce the idea that MMW4P should be a core focus for development agencies and governments. For more information, see

<http://www.springfieldcentre.com>.



### **World Resources Institute**

World Resources Institute is an independent, nonprofit environmental research and policy organization based in Washington, D.C., that creates solutions to protect the earth and improve people's lives. In 2004, the WRI conference, “Eradicating Poverty through Profits: Making Business Work for the Poor,” attracted more than one thousand people from sixty countries to San Francisco. In 2005 WRI will sponsor a conference on the same theme in Germany. For more information, see <http://www.nextbillion.net/confresources>.



## A.4. Key Documents on M4P

Although elements of the M4P approach in practice are fairly well established, the articulation of the objective and approach is relatively new. Some seminal documents, all of which are available at <http://www.bdsknowledge.org>, include:

- Lindahl, Claes. 2003. Making markets work for the poor. Stockholm, Sweden: Swedish International Development Cooperation Agency (SIDA).
- . 2005. Wealth of the poor: Eliminating poverty through market and private sector development.
- Ferrand, David, Alan Gibson and Hugh Scott. 2004. Making markets work for the poor: An objective and an approach for governments and development agencies. ComMark Trust, Woodmead, South Africa.
- Hellin, Jon, Alison Griffith, and Mike Albu. 2005. Mapping the market: A Framework for Rural Enterprise Development Policy and Practice. Practical Action, Rugby, United Kingdom.
- DFID (UK Department for International Development). 2005. Making market systems work better for the poor (M4P): An introduction to the concept. Discussion paper prepared for ADB/DFID joint workshop on Making Markets Work for the Poor, 15-16 Feb, Manila, Philippines. (available at: [http://www.dfid.gov.uk/news/files/trade\\_news/adb-workshop.asp](http://www.dfid.gov.uk/news/files/trade_news/adb-workshop.asp))

## A.5. Communities of Practice (M4P, Value Chain, and Support Market Development)

The following websites contain documents related to M4P as it relates to value chain and support market development and/or are likely to continue to post related documents and activities:



[http://www.dfid.gov.uk/news/files/trade\\_news/adb-workshop.asp](http://www.dfid.gov.uk/news/files/trade_news/adb-workshop.asp)

Papers from a DFID and ADB sponsored conference on M4P in February 2005.



[www.markets4poor.org/](http://www.markets4poor.org/)

Website for the Making Markets Work Better for the Poor project, facilitating M4P research networks, policy dialogue, and capacity building in Cambodia, Laos, and Vietnam.



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

Depository for documents and announcements related to making value chain and service markets work for the poor.

**Value chain development, on the other hand, is older in theory and practice. Seminal documents have been reviewed in past (BDS) Readers. Relevant websites and communities of practice include the following links, which also contain information on support market development, more widely known as BDS market development:**



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

Contains tools and techniques for value chain development using commercially viable solutions.



<http://www.sdc-valuechains.ch/>

Focal point for rural development: A community of practice focused on rural value chain development.



<http://www.microlinks.org>

USAID's MicroLinks site, which hosts a community of practice related to linking microenterprises with productive value chains.

**Two sites have historically tracked BDS market development and will likely shift focus in the coming year as the field evolves:**



<http://www.bdsknowledge.org>

Depository for documents and announcements related to making value chain and service markets work for the poor.



<http://www.seepnetwork.org/bdsguide>

The SEEP Guide to Business Development Services and Resources. In 2004–5, this community of practice hosted global dialogues on reaching the very poor and vulnerable and on shifting terminology in the BDS field.

**There is no general community of practice-focused efforts to incorporate SEs into the delivery of public health and other poverty alleviating services. The BDSknowledge website (<http://www.bdsknowledge.org>) contains documents from programs in which SEs deliver key services to the poor and will continue to track documents and activities in this area.**

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- . 2004b. Making market systems work better for poor communes. ADB briefing no. 04. Paper prepared for MPI national conference on socio-economic development of poor communes. Hanoi, Vietnam: ADB.
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