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Training
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The 2006 Reader



Implementing Sustainable Private Sector Development: Striving for Tangible Results for the Poor

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

Annual BDS Seminar • 2006

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Note: In previous years, this Reader has focused on BDS market development and Making Markets Work for the Poor. It has been commonly called the “BDS Reader”.

Co-financed by SDC - Swiss Agency for Development and Cooperation



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IMPLEMENTING SUSTAINABLE PRIVATE SECTOR DEVELOPMENT:
STRIVING FOR TANGIBLE RESULTS FOR THE POOR: The 2006 Reader

ISBN 92-9049-417-4

First edition 2006

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10127 Turin, Italy
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Designed and printed by the International Training Centre of the ILO, Turin - Italy

Editorial, by Jim Tanburn

The authors of this Reader, Aly Miehlabradt and Mary McVay, have again achieved “the impossible”: collecting and synthesising a huge amount of information on current experiences into one, readable document. It is a tribute to their commitment and competence – representing as it does an important ‘snapshot’ of who is doing what, and why, in the rapidly-evolving field of enterprise development.

Their work has been made possible by the willingness of many people in the field to share information about their work – going beyond publicity material, to include rather objective assessments of the achievements and lessons learned. Such willingness to share information must not be taken for granted, since it is far from universal. But it is the only way for us to move beyond fads and fashions, towards improving practice in ways that are based on experience. Importantly, it is also based on the work of many agencies, rather than being led by a small number of ‘thought leaders’.

We do continue with a challenge, however, to measure and document impacts. Programmes that are achieving success are often hesitating to publish data on their full achievements, for fear that their credibility will be challenged. Indeed, the various methodological challenges around attribution, displacement, deadweight etc. mean that it is almost impossible for the purist to quantify impacts precisely, in most cases.

And there is also a question of timescale; funders look for obvious success within a year or so, whereas systemic interventions can take some years to build local knowledge and ownership. So the problem of fashion is still with us – and can probably only be addressed in the future by an even greater focus on impacts: what to measure, how to measure it, and how to ensure that the findings are credible?

Even so, much has been achieved since the first Reader in 2000; thinking about whole systems and markets has now become mainstream in some areas, such as value chain development. But there are challenges in knowing how much of the system to consider: ideally, one would know all about every aspect, but in practice, there are limits on the range of expertise that can be kept up to date by any of us.

This has been true also of the preparation of this Reader, which is now much broader in scope than it was in 2000. That has implied more work for the authors, and higher costs of publication for the sponsors. While each edition of the Reader has been frequently and widely cited in the literature, the time has come for us to hear back from you, the reader. In what ways are you using it? How might it be further improved? Please let us know!

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 facilitating the Seminar and for contributing to the costs of this publication.

Jim Tanburn

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Acknowledgments

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. Our sincere thanks are due to the Swiss Agency for Development and Cooperation (SDC) for funding the writing and publication of this document. The International Labor Organization generously facilitated translation and publication. We are especially grateful to Jim Tanburn for initiating this Reader, and for his professional and personal leadership during its development and annual revision. His willingness to share ideas and discuss strategies, as well as his critical thinking on how to best report on the significant changes in the field, is greatly appreciated.

We are very grateful to David Rinck of Catholic Relief Services for his volunteering to co-author the chapter on relief-to-development in crisis-affected situations. He brought to the Reader his expertise in market-integrated relief work and a new perspective on market development work in crisis affected settings. This work was complimented by open sharing of research documents and discussions with the Market Development Working Group of the Small Enterprise Education and Promotion Network (SEEP). The SEEP crisis work is led by Tim Nourse of the American Refugee Committee and Tracey Gerstle, an independent consultant.

Our deep thanks also go to Laura Meissner, who tracked information, assisted with the example boxes, prepared the bibliography and other key annexes, and edited the document. Her hours of meticulous work contributed significantly to developing this document. Each year, Valeria Morra and her team take great care to create a beautiful document. The authors very much appreciate how it showcases the projects and helps to communicate the information. The authors are also grateful to their spouses for their technical and personal support. This year's edition is dedicated to the innovative and visionary lead firms and market intermediaries who drive the kind of economic development that works to eradicate poverty around the globe.

Alexandra Miehlbradt
Mary McVay
Market Development Consultants

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Acronyms

ADB	Asian Development Bank
AHW	Animal health worker
AISA	Afghan Investment Support Agency
ANSAB	Asia Network for Sustainable Agriculture and Bioresources
ASME	Armenia Small and Medium Enterprise
B3	Build it back better
BDS	Business development services
BDS-MaPS	Business development services/marketing and production services
BE	Business environment
BMO	Business membership organization
BMZ	German Federal Ministry for Economic Cooperation and Development
CABS	Cluster Access to Business Services
CAHW	Community animal health worker
CIDA	Canadian International Development Agency
CORDAID	Catholic Organisation for Relief and Development Aid
CRS	Catholic Relief Services
C-SAFE	Consortium for Southern Africa Food Security Emergency
DAI	Development Alternatives, Inc.
DANIDA	Danish International Development Agency
DFID	Department for International Development (UK)
EC	European Community
ECDI	Enterprise and Career Development Institute
EMG	Emerging Markets Group

EWV	EnterpriseWorks/VITA
FAO	Food and Agriculture Organization
GCSEI	Guatemala Craft Sector Export Initiative
GTZ	German Agency for Technical Cooperation
ICTs	Information and communication technologies
IDE	International Development Enterprises
IFC	International Finance Corporation
ILO	International Labor Organization
IMON	Former National Association of Business Women of Tajikistan
ITC	Indian Tobacco Company
ITN	Insecticide treated mosquito net
M4P	Making Markets Work Better for the Poor
MAPP	Market Assistance Pilot Program
MEDA	Mennonite Economic Development Associates
MFI	Microfinance institution
MSEs	Micro and small enterprises
NGO	Non-governmental organization
NORAD	Norwegian Agency for Development Cooperation
NPA	Norwegian People's Aid
NTFP	Non-timber forest products
PPD	Public-private dialogue
PROFIT	Production, Finance and Improved Technology Program
PSD	Private sector development
RAP	Rapid Assistance Program
RMG	Ready-made garments
SDBS	Sector Development and Business Services

SDC	Swiss Agency for Development and Cooperation
SE	Small enterprise
SEDF	SouthAsia Enterprise Development Facility
SEDJ	Small Enterprise Development Journal
SEEP	Small Enterprise Education and Promotion Network
SEMA	Small Enterprise Media in Africa
SMBSP	Small and Medium Business Support Project
SMEs	Small and medium enterprises
SMEDSEP	Small and Medium Enterprise Development and Sustainable Employment Program
SV&F	Seed vouchers and fairs
TCB	Tanzania Coffee Board
TMB	Total monetary benefits
TNVS	Tanzania National Voucher Scheme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VC	Value chain
VSFB	Veterinarians Without Borders, Belgium
WFP	World Food Programme
WTO	World Trade Organization

1. Introduction

The key challenge for private sector development in 2006 is showing tangible, significant results in poverty eradication. In this light, private sector development communities of practice are asking fundamental questions. Can market development deliver on its promise of large-scale, sustainable poverty reduction? If so, how can programs measure these results and widely disseminate successful strategies? If not, what are the alternatives? Is it better to focus only on opening markets through policy reform, or must programs also stimulate markets to respond? Can the poor compete in global markets, and if not, what are the alternatives? Are small enterprises and small-scale farms the best avenue for reaching the poor? Are massive transfers to the poor in fact a better solution than market development?

These big-picture questions have challenged donors, researchers and practitioners focused on making markets work for the poor to consider the underlying rationale of market development strategies¹ and how to enhance their demonstrable and sustainable contribution to poverty eradication. How can programs be better designed and implemented to open and stimulate markets to drive economic growth that significantly reduces poverty? How can they put in place change processes with their own momentum to develop country markets and institutions? How can programs adapt to more challenging contexts, such as crisis-affected settings? How can programs better hold themselves accountable for achieving poverty eradication? Furthermore, how can practitioners package messages and evidence to reach audiences they may not currently be reaching, such as developing-country parliamentarians and donor-country taxpayers?

The 2006 Reader focuses on private sector programs that open and stimulate markets to generate significant and expanding benefits for the poor. The major lessons emerging from better performing programs are:

- To achieve pro-poor growth, programs need to both a) open markets through business environment reform and b) strengthen the competitiveness of the local private sector to respond to open markets in pro-poor ways.
- To achieve demonstrable, significant results in poverty eradication, programs need to reach scale by stimulating markets to replicate promising practices on a sustainable basis. They can do this by strengthening learning systems and commercial support markets, and by building the capacity of change agents to drive industry competitiveness.

This strategy is different than small-scale, subsidized enterprise development, and builds on market development approaches presented in this Reader and in similar venues. In 2006, the Reader presents the strategy of “market system development” as it is emerging from practice. The strategy and associated lessons are distilled from a range of communities of practice, interpreted in the strategic context of the critical questions and challenges raised by the professionals in more than 85 organizations who generously shared their work and views this year.

1.1 Implementing Sustainable Private Sector Development: Key Strategies and Tangible Results From Programs in 2006

Although market development approaches have been evolving for some time, there are only a handful of programs to date that have approached market development in a systemic manner. It remains a relatively new field, and capacity building for replication of the approach is only beginning to expand. Nevertheless, some programs are reaching scale and showing results in short-term impact and long-term structural change. The following examples are presented in some detail in order to present both the strategies and the results.

¹ Such as value chain development or business development services (BDS) market development.

Private Sector-Driven Change

Examples 1 and 2 are primarily private sector-driven initiatives, although some donor funding and/or social venture capital helped in the start-up phase. They are presented as examples of the kind of private sector response that systemic market development programs are trying to stimulate.

Example 1: Private Sector ICT and Ag-Marketing

ITC's e-Choupals, India

Launched in 2000 as a business initiative, ITC's 'e-Choupal' system provides information and communications technology to farmer "kiosks" that, in turn, link their communities with agricultural information and technical advice specific to their crops and local markets. ITC can then more efficiently sell inputs to, and procure crops from, communities with up-to-date information and practices. While ITC saves operational costs, farmers access lower cost, better quality inputs and higher selling prices. As a side benefit, rural villages are linked to the internet. Services reach more than 3.5 million farmers growing a range of crops – soybean, coffee, wheat, rice, pulses, shrimp – in over 36,000 villages through nearly 6,000 kiosks across nine states in India.



For more information, see:
http://www.itcportal.com/agri_exports/e-choupal_new.htm
 Source: above website

Example 2: Private Sector Cluster Development

Cluster Pulse, global

Cluster Pulse is an NGO affiliated with the Global Network Group India, the Global Network Institute, and Exportfundas, all founded by a social entrepreneur in 2000. Cluster Pulse facilitates small exporter consortia and helps them reach specific global markets by initiating a pilot cluster in a sector or country with donor funds (for example CIDA, UNIDO, or USAID). It then supports imitators who form similar consortia by purchasing consulting services and joining the global network. Since 2000, Cluster Pulse and its affiliated consulting and training firms have worked in 6 sectors to support 63 export consortia or clusters. Each consortium includes an independent facilitator hired on commission to help market the consortium. Results include:

- Training of some 11,500 exporters;
- Forming of 15 consortia with donor funds and 48 self-funded consortia;
- Exporters' savings of \$19 million through bulk purchasing, generating export orders of \$162 million and recovering \$7.5 million in bad debt through joint action.

In some cases, sales benefit exporter-producers and their employees; in other situations, large numbers of small-scale producers stand to gain. For example, carpet exporters in Afghanistan have formed three exporter consortia representing 16 exporters, who purchase from or employ 21,000 weavers. Export sales in the first year were \$350,000.

For more information, see www.ClusterPulse.org; www.exportfundas.com; www.globalnetworkindia.com; www.gnoinstitute.com; and www.iitfglobal.com
 Sources: above websites;
www.afghancarpetconsortia.com; Cluster Pulse 2006

Small, Single-Sector “Demonstration” Programs

Examples 3, 4 and 5 were started for less than \$800,000 in under three years in order to test, demonstrate and learn strategies for stimulating sustainable, widespread market change.

Example 3: Developing the Livestock Sector

Mercy Corps, Azerbaijan

Mercy Corps, with support from USAID, is implementing the Cluster Access to Business Services (CABS) program in rural Azerbaijan to help livestock 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. The program has helped 106 veterinarians in three geographically-based networks which continuously innovate, adding new services and products to their offering. With additional, modest funding for expansion in the fourth year, results include:

- Improved access to veterinary services by 11,500 remote, rural livestock farmers, of which 36% are women.
- In total, the program-targeted farmers annually contribute more than US\$13.4 million to the regional economy in sales value of meat and dairy products.
- Farmers participating in the program estimated income increases at the household level of no less than 40% annually, due to improved animal health and the related increases in productivity.

For more information, contact Alakbar Asgarov at alakbar@mercy Corps.az or see www.bdsknowledge.org
Source: Mercy Corps July 2006



Example 4: Guatemala Craft Sector Export Initiative (GCSEI)

Aid to Artisans and AGEXPRONT, Guatemala

The USAID-funded GCSEI ran from 2003-2006. Its aim was to strengthen the Guatemalan craft sector by assisting exporters in gaining access to international markets, which are larger and higher in value than local markets, and offer more potential to provide sales and income to the large numbers of microenterprise crafts producers. The program worked hand-in hand with AGEXPRONT, the association of non traditional exporters, to build its capacity to facilitate long-term change in the market. Together, they:

- Strengthened the capacity of Guatemalan exporters to attract export orders through trade show participation.
- Attracted buyers to Guatemala through “buyer visits”. The project facilitated these visits and subsidized the airfare for one trip per buyer. AGEXPRONT offsets these and related costs by charging a 2.5% commission on all sales that they help facilitate.
- Hosted Guatemalan trade shows.

Cont. next page

Once pilot initiatives showed success, AGEXPRONT stimulated wider adoption through strengthening its library and ICT information services, and by hosting seminars and events such as a design “congress” that attracted higher-level Guatemalan designers and additional wholesalers and exporters into the initiatives. At a project cost of about \$800,000, the following results were achieved:

- Stabilization of Guatemalan craft export sales from an average annual decline of 30% to an annual growth rate of 7%.
- Export sales generation of \$1.53 million (over 3 years) by exporters affiliated with AGEXPRONT.
- Increased purchases made from an estimated 8,900 artisans, 75% of whom are women.

For more information, contact Mary Cockram at mary_cockram@aidtoartisans.org or Silvia Moreira at silvia.moreira@agexpront.org.gt or see www.export.com.gt/Portal/Home.aspx ; www.aidtoartisans.org and www.bdsknowledge.org
Source: Aid to Artisans 2006



Example 5: From Behind the Veil

Enterprise and Career Development Institute and Mennonite Economic Development Associates, Pakistan

MEDA and ECDI are implementing a USAID-funded program, “From Behind the Veil”, which helps homebound rural women in Pakistan reach lucrative markets through a “woman-to-woman” network. Its aim is to enable women to contribute to household income and participate in their communities’ economic growth. The strategy of working with women sales agents was devised to enable isolated women to have in-depth interactions with knowledgeable market traders. Through capacity development of women intermediaries, the program is upgrading designs, improving quality, connecting producers to quality inputs, and forging market linkages. The activities are geared towards sustainability and the creation of dynamic value chains through:

- Strengthening self-perpetuating networks of sales agents who recruit and train additional agents.
- Stimulating support markets, such as those for embroidery patterns and designs.
- Building the capacity of sales agents to manage and train producers to meet market demand.
- Supporting new lead firms, such as urban-based buying houses that link rural and urban traders.

Halfway through the three-year program:

- 7,000 women producers are linked to markets via 185 sales agents.
- 2,000 women have increased their incomes more than threefold, to \$20 per month (\$240 annually) compared to an average of \$6 per month before the project. Another 5,000 are earning occasional income that has been growing steadily.

The total budget for the three-year program is \$600,000.

For more information, contact Helen Loftin at hloftin@meda.org or see www.bdsknowledge.org and www.meda.org
Source: MEDA 2006a-d; MEDA 2005a

Large, Multi-Sector Programs

Examples 6, 7 and 8 are large, multi-sector programs of greater than five years' duration. Two were designed to test and demonstrate the potential for large-scale programs to stimulate market systems, while the other changed from a direct service delivery program mid-stream. These programs are all midway through implementation, and have yet to fully assess results from market-wide change.



Example 6: KATALYST

Swisscontact and GTZ International Services, Bangladesh

KATALYST is a five-year project jointly funded by DFID, SDC, Sida, and, soon, CIDA. It is implemented by Swisscontact and GTZ International Services, with the Ministry of Commerce of Bangladesh. Its mission is to alleviate poverty by improving the competitiveness of SEs (including farmers) in selected sectors in the economy by developing business service markets that improve SE access to knowledge, information and skills vital for growth. KATALYST is active in five low-income rural areas and two metropolitan areas, seven service sectors, twelve productive sectors, and in building systems for strengthening the local business enabling environment. For example, in the maize sector, KATALYST strengthened the flow of knowledge and information in the sector in order to improve farmer response to and returns from significant market demand. The program linked lead firms with and cost-shared technical assistance to help them introduce new ideas and practices. The project then stimulated replication of the improved practices among businesses in the wider market. For example:

- A few buyers who contract farmers to produce maize received technical assistance and began to introduce improved cultivation practices. Replication was stimulated through business-to-business exchange and the documentation of good practices in contract farming.
- Organic fertilizer producers were supported to improve compost quality, knowledge about application, and distribution; replication has been on an individual basis to 2 other suppliers.
- Producers of new seed varieties received TA that reduced post-harvest losses by adjusting cropping patterns and improving marketing and distribution practices; replication has been on an individual basis combined with stimulating linkages with public seed research institutions and innovative producers in other regions of Bangladesh.

In its initial 4 years of operation, KATALYST as a whole has strengthened or facilitated the development of lead firms and service providers who have reached, conservatively, 100,000 SE and farmers directly, another 100,000 through work in the media sector, and an estimated further 500,000 indirectly, using a total budget of around \$15,000,000. Total spillover effects have yet to be fully measured.

For more information, contact Harald Bekkers at harald.bekkers@swisscontact-bd.org or see www.katalystbd.com
Source: KATALYST n.d.; Gibson, 2006

Example 7: SouthAsia Enterprise Development Facility

International Finance Corporation, Bangladesh

Sector Development and Business Services (SDBS) is a program of the International Finance Corporation (IFC)'s SouthAsia Enterprise Development Facility (SEDF), based in Bangladesh but also covering Nepal, Bhutan and North East India. It is funded by IFC, DFID, EC, NORAD, CIDA, the Netherlands government, and ADB. Its mission is to increase economic opportunity for the poor by enhancing SME competitiveness. The SDBS strategy focuses on direct interaction with pilot businesses in target sectors to learn what works and what does not, in order to then stimulate system-wide change. For example, in the ready-made garments (RMG) sector, SEDF co-financed technical assistance to pilot firms for productivity improvement services, to the RMG association for pilot trade shows, and to technical training institutes and consulting firms for curricula and service development. SEDF has since exited from all these activities, while the trade association, consulting firms and training institutes continue to offer services to increasing numbers of RMG firms.

Over a period of three years (2003 to 2005), the program has directly supported technical assistance and training to 136 enterprises, 20 service providers, 11 apparel buying houses and 3,017 individuals. Assisted firms and service providers have reported increased sales of over US \$114 million and increased assets of more than US \$35 million. This can be compared to a total program cost of US \$6.08 million for a "leverage value" of total program costs to sales increases in assisted clients of 1:19. To date, assisted firms have created a total of 16,239 new jobs. One particular assisted lead firm was able to increase its outreach from 46,000 to 75,000 small-scale farmers. Outreach and impact from the market replication of pilot activities are now being measured.

For more information, contact Deepak P. Adhikary at dAdhikary@ifc.org or see www.bdsknowledge.org
Source: Adhikary and McVay 2006; Islam 2005

Example 8: USAID Kenya BDS

Emerging Markets Group

The USAID Kenya BDS program is a \$5 million, five-year program implemented by the Emerging Markets Group. The program works to increase growth and incomes among rural SEs through access to markets and access to business services to compete in markets in several target sectors. For example, in the tree fruits sub-sector, Kenya BDS contracts facilitators to work with lead firms, farmers' groups, financial institutions and service providers. These facilitators link farmers to markets, and finance inputs and technical services to meet market requirements. The markets are expanding independently of the program as more lead firms copy the original lead firms, and as service providers fan out around rural areas, serving more farmers. In its initial four years of operation, Kenya BDS has helped 54,355 SEs access commercial business services, and linked 14,844 with the commercial market.



For more information, contact David Knopp at david@kenyabds.com or see www.kenyabds.com
Source: Knopp 2006; Emerging Markets Group 2006

Business Environment Reform Programs

Examples 9 and 10 describe programs that are opening markets by reforming the business environment (BE). One focuses on the overall business environment; the other addresses sector specific BE issues as part of a value chain program.

Example 9: Business Environment Reform

Small and Medium Business Support Project, Egypt

Egyptian entrepreneurs have to wait a year for their business license, filling in numerous forms in the process; entire files are often lost. CIDA's Small and Medium Business Support Project (SMBSP) has been working with the Governorate of Dakhalia to bring all of the offices involved in the licensing process into one facility—a one-stop shop. As a result, the maximum time required to obtain a license has decreased from 336 days to 15 days, and the number of visits required of the entrepreneur has been reduced from an average of 25 to 2. Fees for services have been reduced from an average of 5,000 LE to 75 LE; and the number of forms required of an applicant has been trimmed from 26 to 6.

For more information, see www.businessenvironment.org
Source: Omran and Wali 2005



Example 10: Sector-Specific BE Reform

TechnoServe, Coffee Industry, Tanzania

Coffee is one of Tanzania's major exports, generating more than \$60 million per year. With funding from USAID, USDA, the Swiss State Secretariat for Economic Affairs and private donors, TechnoServe has helped coffee industry stakeholders in Tanzania develop and implement a plan to transform Tanzania into one of the world's premium specialty-coffee producing nations. As part of a value chain focused program, and at the invitation of the Tanzanian government, TechnoServe analyzed government taxes and regulations affecting the coffee industry and worked with KILICAFE, a coffee association, to advocate for changes. Among other reforms, the Tanzania Coffee Board enacted new regulations in 2003 to allow high-quality coffee growers to sell directly to specialty buyers and bypass the national auction system. KILICAFE, with 9,000 smallholder farmer members, became the first organization to export specialty coffee directly to overseas buyers. Overall, the TechnoServe work helped to catalyze regulatory changes and tax reforms that are projected to boost the incomes of 400,000 coffee farmers by US\$20 million over the next 10 years. The successful regulatory changes in Tanzania have also launched debates in several other coffee growing countries, such as Kenya, that are expected to introduce direct export policies.

For more information, contact Luba Vangelova at LVangelova@tns.org or see www.technoserve.org or www.microlinks.org
Source: TechnoServe 2005

Stimulating Markets for Meeting Basic Human Needs

Examples 11 and 12 illustrate how programs are using and/or stimulating the private sector to deliver basic goods and services to needy populations.

Example 11: The Tanzania National Voucher Scheme

MEDA and the Tanzanian Ministry of Health



Tanzania, like much of Sub-Saharan Africa, is paying the huge actual and opportunity cost of malaria. For the Tanzanian government, malaria accounts for 40% of public health expenditures. For those afflicted, each malaria episode costs between US\$1 (for a mild episode) and US\$20 (for a severe episode), and multiple episodes are common.

In 2004, MEDA partnered with the Tanzanian Ministry of Health to implement the Tanzania National Voucher Scheme (TNVS) project. The project, entitled 'Hati Punjuzo' (Swahili for 'discount voucher'), serves the dual purpose of distributing Insecticide Treated Mosquito Nets (ITNs) to priority populations, and developing commercial networks. In addition to receiving health treatment and information, pregnant women and young mothers who attend health clinics are given a voucher that offers them a substantial discount on the purchase of an ITN. They can redeem this voucher in any of the 3,000 existing

networked retailers— many in the most remote villages – who stock the item. Retailers are motivated to stock the item, as reimbursement for redeemed vouchers is prompt and assured.

This initiative has surpassed the key milestone of over 1,000,000 redeemed vouchers which, according to established research, represents as many as 5,500 lives saved. Perhaps even more impressive: Sales of nets that are not subsidized by a voucher are up over 30%, an indication that commercial networks are successfully delivering affordable healthcare products.

For more information, contact Jerome Quigley at jquigley@meda.org or see www.bdsknowledge.org and www.meda.org
Source: MEDA 2006a-d; MEDA 2005a



Example 12: MAPP in Zimbabwe

CRS and C-SAFE, Zimbabwe

In 2003-4, CRS, as a member of the C-SAFE consortium, implemented the USAID-funded Market Assistance Pilot Program (MAPP) in Zimbabwe. The MAPP had two key objectives: to maximize the amount of food that reaches the target beneficiaries at the target price, and to increase market activity by small-scale traders. The target group was 530,000 persons from some 96,400 low-income households located in the high-density suburbs of Bulawayo city.

Prior to MAPP, the low-income households had had difficulty accessing cereals. Inconsistent grain supplies from the Grain Marketing Board fueled black marketeering of the staple maize. Consequently, maize-meal was sold at very high prices that were well beyond the reach of the low-income households. MAPP deliberately selected sorghum, a grain that is less preferred to maize.

The MAPP made some 9,380 mt of sorghum available to food insecure households by working through existing market channels, including millers, distributors, and retail outlets, idled by the market failure in Zimbabwe. Vulnerable low-income households could easily access the sorghum meal from the participating retail outlets at an affordable price.

For more information contact David Rinck, CRS, at drinck_crssaro@yahoo.com.
Source: Viedma Consulting 2004



1.2 The 2006 Reader Content

The 2006 Reader presents current issues, describes evolving frameworks, reviews trends and synthesizes lessons from programs around the world that are opening and stimulating markets to grow and benefit poor people. This year, the Reader also identifies key “gaps” in current strategies and experience, and raises a call to action for donors and practitioners with the aim of helping to increase tangible results for the poor.

■ Chapter 2 asks: “What’s next in private sector development?” The field is at a crossroads, with several trends threatening support for and progress of market development initiatives. Is “new minimalist” business environment reform the next wave, and what does that mean for market development?

- Chapter 3 describes a systemic approach to opening markets and stimulating market development. This approach attempts to address much of the criticism of, and to incorporate some key practices from, “business environment” supporters. The chapter briefly describes the theory underlying this approach, but focuses primarily on practical strategies to change market systems so that they sustainably grow and benefit increasing numbers of poor people over time.
- Chapter 4 presents current strategies for Business Environment (BE) reform. It covers both those strategies focusing solely on the business environment at the national level and those that emphasize poverty eradication, promote sustainable reform processes that incorporate businesses and poor people and support value chain development.

- Chapter 5 describes strategies to go beyond value chain development to open and stimulate dynamic, expanding value chain systems.
- Chapter 6 introduces a new area of PSD work: developing “foundation markets”. These are markets that support private sector development by meeting basic human needs and developing human capital, delivering business support services and products to growing value chains, and contributing to a positive investment climate by stimulating basic business service markets. It includes a section on financial services to support value chain growth and development.
- Chapter 7, on crisis-affected situations, addresses ways to reduce market distortion during relief operations, and to move quickly to business and market development to help affected people restore their livelihoods.
- Chapter 8 assesses progress and gaps in two areas of accountability: impact assessment and capacity building for quality programming. It emphasizes ways to increase development agencies’ accountability for results in poverty reduction.
- Chapter 9, the conclusion, summarizes progress and challenges in the aid industry to achieving poverty eradication through private sector growth and sustainable development.

2. Private Sector Development: What's Next?

Private sector development as a field is at a crossroads, and market development approaches are under threat. Over the last five years, different communities of practice have exchanged experience and strategies and have emerged with similar or overlapping approaches to stimulating market systems that benefit the poor, using small enterprises as a critical instrument.² Despite significant progress and innovation, four trends are undermining or threatening support for this kind of market development:

- **Lack of Impact Assessment to Show Clear, Large-Scale Results:** Poor measurement of results from market development. The lack of clear and significant results in eradicating poverty is eroding donor support for market development strategies.
- **Support for Business Environment Reform:** Strong momentum for “new minimalism”, which advocates a focus on opening markets through business environment reforms, with limited or no investment in stimulating a market response.³ This continues, despite the lack of demonstrated impacts on poverty reduction as a result of BE reform initiatives.
- **Significant Increased Investment in “Direct Transfers” for Poverty Reduction:** Investment in budget support and direct service and commodity delivery to the poor through governments rather than market development.⁴
- **Lack of Quality Field Implementation:** A persistent gap between knowledge and agencies’ recommended practices on the one hand, and donors/practitioners designing and implementing programs around the world on the other. This is due to decentralization, the lack of a community of practice around market development, and lack of investment in capacity building.

These trends are stimulating fundamental debates within private sector development.

Example 13: Is the Lack of Documented Impact Leading Donors to Other Strategies?

“Measurement of the effectiveness of aid has not yet produced some of the results that would really help, such as credible ratings of aid agencies or rigorous randomized trials of specific programs.” Michael Klein, vice president for PSD at the World Bank, has co-authored a series of recent papers encouraging the aid industry to embrace competition among aid agencies, based on systematic and rigorous assessment of each agency’s performance. His conclusions are no doubt controversial. However, few are arguing with his emphasis on more accountability for results and better evaluation of programs’ and agencies’ effectiveness.

For more information, see
<http://rru.worldbank.org/Discussions/Topics/Topic62.aspx>
 Source: Harford, Hadjimichael and Klein 2004; Klein and Harford 2005

Jeffrey D. Sachs, Director of the UN Millennium Project, calls for massive transfers and subsidies to the poor for “quick-win” and large-scale solutions. They include such activities as distributing free, long-lasting, insecticide-treated bed nets to all children in malaria endemic zones to cut decisively the burden of malaria. Although the project also calls for opening global markets, the strategy does not mention sustainability of poverty eradication services, or strengthening market systems.

Source and for more information, see
www.unmillenniumproject.org

² Miehlabradt and McVay 2005.

³ Tanburn 2006c.

⁴ See www.unmillenniumproject.org.

2.1 New Version of the Classic Debate: Opening vs. Stimulating Markets

Two debates stand out. The first is a new version of an old debate: opening markets and creating a supporting business enabling environment, versus stimulating specific markets and building the capacity of the private sector to compete in open markets. Some experts contend that correct macro-economic policies and an open business enabling environment are the foundations for economic growth, the prerequisite for poverty eradication.⁵ Others contend that private sector businesses do not necessarily have the capacity to respond to open markets and may, in fact, be crushed by them in the absence of competitiveness strengthening. The middle-ground position is that both types of interventions are needed.⁶ Some recent work merges lessons from both sides of the debate, and incorporates efforts to address the enabling-environment issues into strategies that stimulate a private sector response.

2.2 The Critical Debate: Is Small Still Relevant?

The second debate centers on the value of targeting small enterprises as a critical route to increasing incomes and assets of the poor. Over the last few years, many development experts focused on poverty eradication have been identifying new avenues for benefiting the poor, and consequently questioning the focus on small enterprises.⁷ In 2006, programs focus more on the enabling environment⁸ and on lead export firms, transnational corporations, labor market improvements and markets that deliver basic consumer services to the poor.⁹ Nevertheless, there are defenders of small enterprise development,

most notably NGOs and donor departments that, due to legislative mandate, target microenterprises and the poor.¹⁰ Over the last year, the Small Enterprise Development Journal has run a series on the subject “Is Small Relevant?”¹¹ Thus far, contributors to the series favor maintaining a focus on SEs within a broader systemic approach, lest the interests of the poor be left out or damaged by “trickle-down” economic growth initiatives.¹² There are few supporters, however, of channeling direct subsidies only to SEs. These strategies have demonstrated small scale and low or no sustainability.

Example 14: Is Small Relevant?

Excerpt from MEDA Contribution to the SED Journal Series

“... we must continue to center efforts on the small producer. We can, and indeed should, assume a systems perspective (Jones and Shaikh, 2005). In the face of globalization, we will have to understand and perhaps intervene in areas related to industry growth, enabling environment and stakeholders higher up in the value chain. But none of this diminishes the diligence that is necessary to ensure that our partners – the underserved producers at the bottom of the socio-economic heap – are actively integrated as value-adding participants into markets through *our* programs. ... So, is small relevant? No, small is not ‘relevant’ – small is fundamental, small is pivotal, small is indeed beautiful!” (Schumacher, 1973)

For more information, see www.itdgpublishing.org.uk
Source: Jones 2006

⁵ Lobb-Rabe *et al* 2005.

⁶ Meyer-Stahmer and Waltring 2006; Waltring 2006; Downing, Snodgrass, Northrip and Woller 2006; Rodunder and Gerrits 2006; Tanburn 2006; Gibson 2005.

⁷ Miehlabradt and McVay 2005.

⁸ Tanburn 2006c.

⁹ See www.enterprise-development.org.

¹⁰ See www.usaid.gov; MEDA 2006b.

¹¹ See www.itdgpublishing.org.uk.

¹² MEDA 2006b.

2.3 The Common Ground: Practical Approaches to Pro-Poor Growth

Ideological debates and polarized positions stifle exchange and learning, which is at the heart of improved and effective development practice. Many donors and practitioners are seeking practical solutions that contain elements of all of the above strategies.¹³ This Reader focuses on these middle-ground solutions, and recommends practices and directions with the potential to enhance results.

The middle-ground donors, researchers and practitioners incorporate efforts to address the business environment into initiatives that open and stimulate market development. The type of stimulation, however, is crucial. Sustainable, widespread, poverty-reducing growth emerges from opening and stimulating specific markets, industries, or regional economies to a) become more competitive and dynamic so that they expand over time and adopt new competitiveness strategies, and b) incorporate and benefit the poor, so that growth works to eradicate poverty. This approach is referred to in this Reader as a “market systems approach” or “systemic market development”.

Examples of Non-systemic Private Sector Development Programs Funded in 2006

- Matching grants to individual firms: offered to selected private-sector firms, with no clear link to employment creation or backward linkages to small-scale farms or other poverty-reducing mechanisms.
- “Challenge” grants to lead firms: offered to individual lead firms that do create jobs and/or link to small-scale farmers, but that are one-off investments, not replicable to other firms and not generating or stimulating other economic development.
- Grants to service providers: to learning institutions to serve the poor or microenterprises on a short-term, subsidized, and small-scale basis, rather than stimulating purchasing power of microenterprises through vouchers.
- Facilitating business linkages: between individual firms and buyers, firms and service providers, firms and suppliers without an over-arching industry competitiveness strategy or a sustainability strategy for the linkage service.
- Cooperative development: Building the capacity of several cooperatives and linking them to the market through a centralized, single marketing cooperative.
- Direct value chain development: Directly enhancing value chain competitiveness by training value-chain businesses and directly facilitating linkages, rather than stimulating associations, business support markets and other learning systems to strengthen multiple businesses in the value chain on a sustainable basis.
- Targeting only SEs: targeting all assistance directly to SEs, ignoring the power of larger firms to generate growth that benefits SEs and the poor.

Many of these strategies are effective ways to stimulate markets or launch a systemic process, but without a strategy for sustainability and market replication, they tend to end with the project.

¹³ Meyer-Stahmer and Waltring 2006; Waltring 2006; Downing, Snodgrass, Northrip and Woller 2006; Rodunder and Gerrits 2006; Tanburn 2006; Gibson 2005.

What do market developers need to do to show improved results? In 2006, donors, researchers and practitioners have four core recommendations:

- 1) **Use systems and markets to scale up:** Too many “market development” programs focus on small, pilot market models. These programs do not consider how to stimulate the market to replicate pro-poor business deals throughout a wider market. A critical strategy for doing this is to strengthen market-based learning systems.
- 2) **Pay attention to the business environment:** Promote ongoing and sustainable dialogue among all stakeholders on local and industry-specific BE issues that affect target markets. Support macroeconomic reforms that affect the entire economy.

- 3) **Measure systemic impact:** Measure impact in terms of the benefits to the poor, and count the benefits of the program as it replicates throughout the market system.
- 4) **Invest in capacity building:** This includes on-going framework and tools development, on-line communities of practice, and centralized seminars. Significantly more investment is needed at the field level and in systems to efficiently exchange learning around the globe.

The bulk of the 2006 Reader focuses on practical strategies for opening and stimulating market systems, and for addressing these four critical gaps.

3. Systemic Market Development in Action

In theory, systemic market development holds the promise of sustainable, widespread poverty eradication. What does this mean in practice? This chapter defines systemic market development, explains its link in theory and practice to poverty eradication, and elaborates on practical implementation strategies. It also identifies the missing kernel for many programs in achieving large-scale results – how to strengthen learning systems to replicate business models on a widespread and sustainable basis.

3.1 What Is Systemic Market Development? How Can It Reduce Poverty?

Many programs aim to develop markets. Developing a market system that reduces poverty, however, entails stimulating processes that generate momentum by continuously expanding, learning, and incorporating more poor people into market relationships that offer better and more secure returns. Market system development targets more than one lead firm's supply chain, one set of linkages among cooperatives, one specific cluster, or even one set of vertical linkages among several firms. Rather, market system development strives to achieve a wider set of goals and incorporates a wider set of dimensions in order to generate continuous growth.

A Market Systems Approach to Poverty Eradication

Sustainable, widespread, and poverty-reducing growth emerges from opening and stimulating specific markets, industries, or regional economies to a) become more competitive and dynamic so that they expand over time and adopt new competitiveness strategies as market conditions change, and b) incorporate and benefit the poor, so that growth works to eradicate poverty.

3.1.1 The Vision for Developing Market Systems that Work for the Poor

Currently, different programs work toward a wide range of market development goals, but there is no clear, consistent vision for a well-functioning market system that channels benefits to the poor. The following list, assembled from the aims and objectives of various pro-poor growth initiatives, presents five key characteristics of a well-functioning market. These characteristics are goals of systemic market development programs. In sum, developing a market system entails strengthening the private sector to expand in terms of growth and added participants, to be resilient and responsive to market shifts, and to channel benefits to the poor. These actions occur in a positive and responsive business enabling environment, and are fueled by a change driver that takes the lead in continuously strengthening the market system.

The Vision of a Well-Functioning Market System¹⁴

1. An Expanding Market
 - a) Growing sales, increasing competitiveness, and increasing market transactions that are mutually beneficial and channel ever-improving benefits to the poor.
 - b) Expanding market participation of ever-increasing numbers of firms and employees.
 - c) Strong linkages to other markets so that growth in each is mutually reinforcing. These include upstream, downstream and support markets.
2. A Resilient and Responsive Market
 - a) Increasing diversity of products and business functions.
 - b) Mutually beneficial, long-term, trusting and transparent business relationships.
 - c) Innovation and adaptation in reaction to market shifts.
 - d) Information and learning systems built into the market and into business relationships, such that innovations are transferred and new entrants can access needed information and skills.
3. A Market that Channels Benefits to the Poor
 - a) Increasing participation of poor people, through business relationships that offer more stable, increased livelihoods and that open economic and social opportunities.
 - b) A market culture and business practices that support the flow of benefits to the poor, and offer the poor increasing choices.
 - c) Market practices that meet environmental, labor and other social standards which encourage long-term sustainability, the ability to reach target markets, and which effectively channel benefits to the poor.
4. A Supportive Business Environment
 - a) Government policies, regulations and practices free from graft or corruption that support easy and efficient business operation while protecting society from harm.
 - b) Effective and sustained cooperation between government, the private sector and other stakeholders, which results in improvements in the business enabling environment for businesses of all sizes and for the poor.
 - c) Increasingly open and inclusive business culture and practices, and organizations in place to stimulate ongoing market transparency and equity.
5. The Presence of a Change Driver
 - a) An institution and/or set of entrepreneurs driving the market change process, facilitating on-going market opening and development.

¹⁴ Based in part on a checklist developed by the Springfield Centre.

Example 15: Program Goal Statements That Reflect A Systemic Approach

Ntinga Link, South Africa

"Ntinga Link works with bona fide players – large and small; established and emerging; historically disadvantaged individuals and others – to ensure that the broader South African business community is able to make the transition from formerly exclusionary or unfair "business as usual" to transparent, competitive, and efficient business systems that allow for new entrants and expansion of the economic pie."

Source: World Education 2005

PROFIT, Tanzania

"The over-arching goal of Production, Finance and Improved Technology Program (PROFIT) is to increase industry growth while assuring meaningful, poverty reduction at the household level. To achieve the growth with poverty reduction goal, PROFIT will:

- Improve the competitiveness of industries in which large numbers of MSEs participate and might benefit.
- Foster the sustainability of competitiveness so as to enable firms and industries to respond to market demands both in the short and long run.
- Increase the breadth and depth of benefits at the industry, MSE and household levels."

Source: CLUSA, IDE and EMG 2006a

3.1.2 Dimensions of Systemic Market Change

There are several frameworks that describe dimensions of well-functioning market systems that benefit the poor. By compiling frameworks, five market "dimensions" emerge:¹⁵

- **The context:** the cultural, environmental, political, health and other physical and social factors that influence markets and the target population;¹⁶
- **The business environment (BE):** the global, national and local government policy and regulatory influences on the market, as well as government services and infrastructure that affect the market;
- **Institutions:** learning institutes, universities, business membership organizations,¹⁷ research institutes, NGOs and development initiatives that contribute to and influence the market;
- **The core market itself:** businesses, their associations¹⁸ and input suppliers that take products from raw materials to market, or that create and market services to consumers and other businesses;
- **Support markets:** technology, business, and financial services¹⁹ that are pivotal to the exchange of goods and services and the strength and dynamism of the market. These may be embedded, fee-based or a combination of the two.

¹⁵ USAID 2006d; CLUSA/IDE/EMG 2005a; Roduner and Gerrits 2006; Waltring 2006; Albu and Griffith 2006.

¹⁶ Waltring 2006.

¹⁷ In their role as advocates and market facilitators.

¹⁸ In their role as market intermediaries.

¹⁹ In this Reader, we consider inputs as part of the value chain, although this is debated in different frameworks. In addition, if an association provides business services, they would be considered active in this dimension.

Some proponents of systemic change suggest that a systemic market development program must address all components of a market system.²⁰ There are several programs attempting to address the three dimensions in the M4P framework: core market, supporting functions, and the rules that govern the market.²¹ For many others, funding, timeframes, and institutional capacity limit program scope. Some small programs are nevertheless able to achieve significant results by focusing on very narrow value chains or core markets, partnering with other agencies to increase capacity, and/or picking one dimension of a market – a value chain support market or a feature of the enabling environment – and stimulating sustainable change processes.

What is a Market System?

In a market system, a core market is a **substantial** geographic area, a clear set of traded products and services, and **all** of the businesses involved in trading those products and services in that geographic area. What makes a market system is the core market and its four critical influences: the context, the business enabling environment, institutions that affect the core market, and support markets.

Example 16: Developing Market Systems with Limited Scope and Budget

Emerging Markets Group

- Mercy Corps Azerbaijan, with less than \$750,000 in initial USAID funding, strengthened the veterinary services market, and helped some 6,000 farmers in southern Azerbaijan increase incomes by 40% in three years.

Source: Mercy Corps 2006

MEDA and ECDI, Pakistan

- MEDA and ECDI in Pakistan, with \$600,000 in USAID funding, are stimulating the embroidered clothing value chain and one support market, and have reached 7,000 women, increasing 2,000 rural women's income by an average of 300%, in less than two years.

Source: MEDA 2006

ACADER, Cameroon

- ACADER, a community-based NGO in rural Cameroon, plans to strengthen the local market for compost. This will help farmers access healthier, environmentally sound and low-cost alternatives to chemical fertilizer. With \$2,500 in start-up funds, all raised in the community, ACADER will train a handful of trainers and establish an equipment loan fund for training compost makers/sellers who will reach 100 new farmers every year, and expand to new regions over time.

Source: ACADER 2006

²⁰ Tomecko 2006.

²¹ KATALYST n.d.; Adhikary and McVay 2006; Becker, Jansen, Roaring and Zveglic 2005.

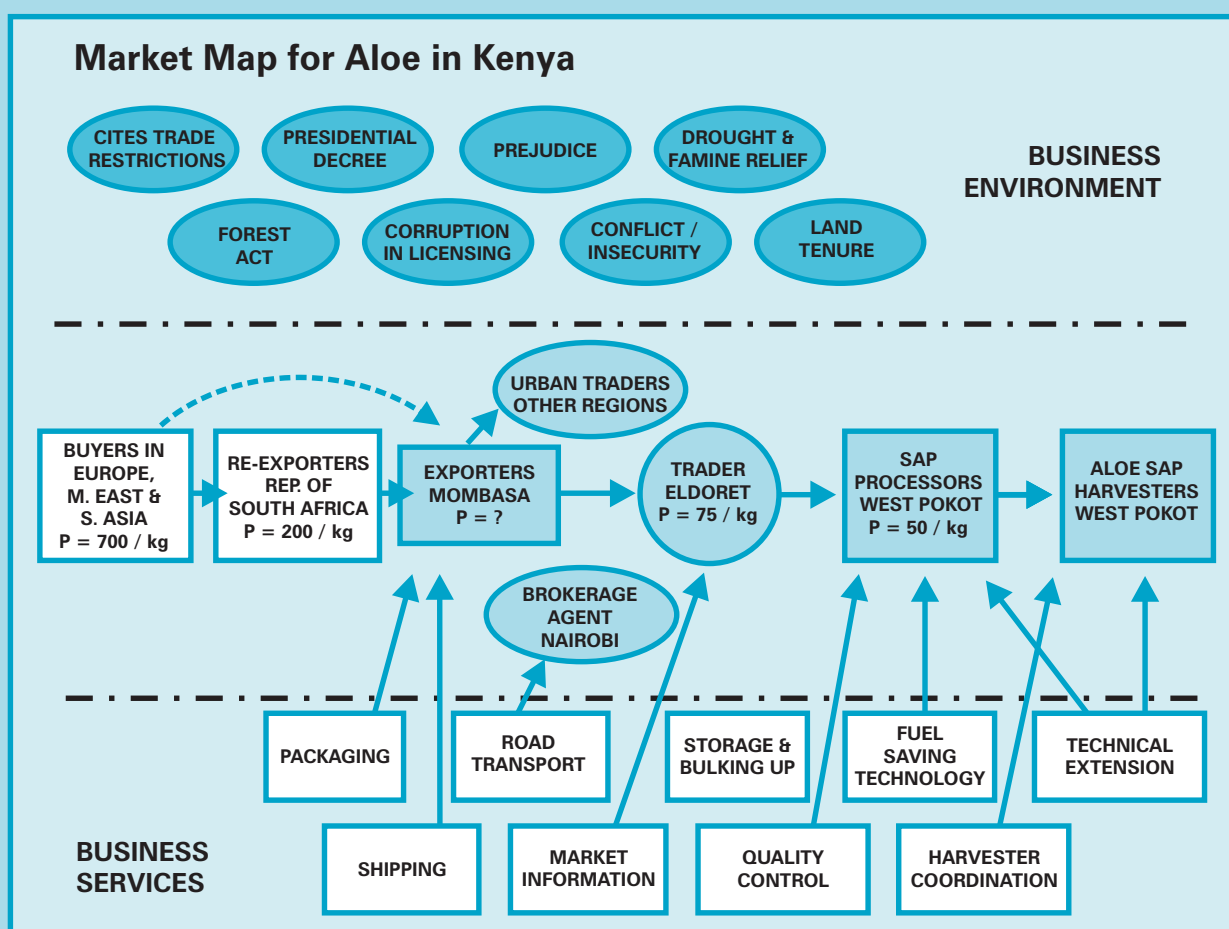
3.1.3 Systemic Market Maps

This year, the diagrams or maps that illustrate how businesses and other institutions interact with one another have evolved to reflect market systems more comprehensively.

Example 17: Mapping Market Systems – An M4P Map Showing Complex Reality

Practical Action, Kenya Gatsby Trust, and Traidcraft in Kenya

The livelihoods of pastoralists in northern Kenya are being eroded by declining livestock values, environmental degradation, and conflict. The harvesting of aloe, which is in high demand in Europe, the Middle East and South Asia, holds potential as a new source of livelihood security. With funding from Ford Foundation and Comic Relief, Practical Action, Kenya Gatsby Trust, and Traidcraft used market system mapping to engage stakeholders in dialogue on income improvements for the poor in the aloe value chain. Participatory mapping of the market system helped stakeholders communicate the opportunities and blockages in the business environment, business linkages, and business services that could bring resources to the community in exchange for aloe sap.



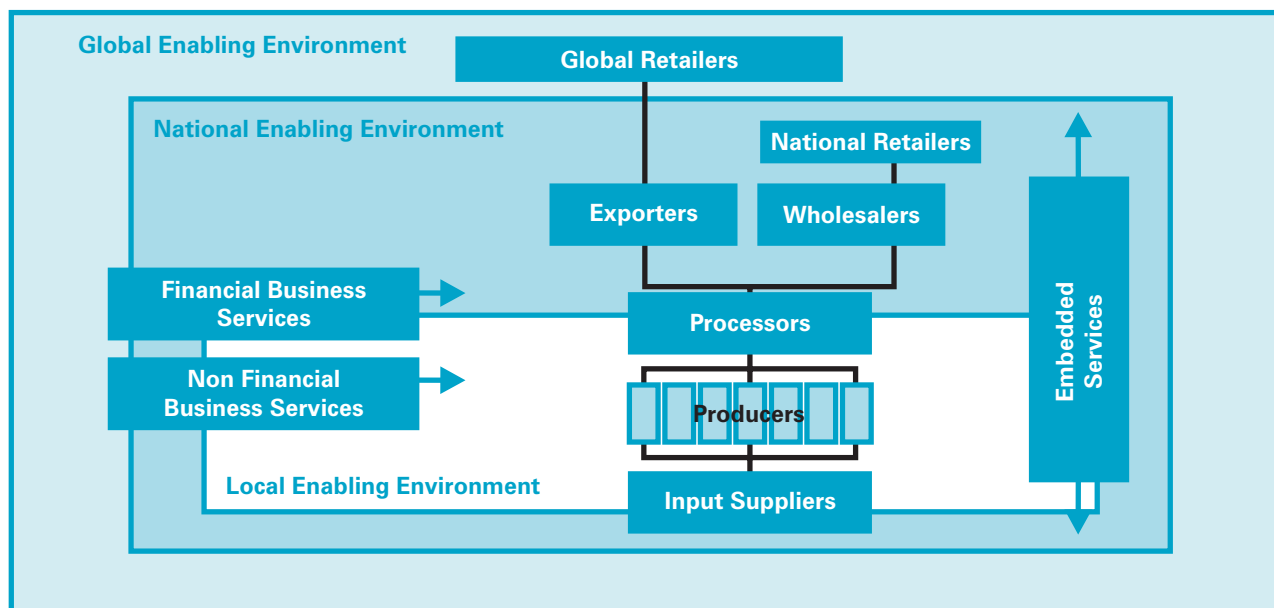
Note that the arrows flow from buyer to producer to depict the resource flow, rather than the product flow.

For more information, contact Alison Griffith at alison.griffith@practicalaction.org.uk or see www.practicalaction.org.uk
Source: Albu and Griffith 2006

Figure 1: Mapping Market Systems – A Model Value Chain Map

Adapted from USAID by the SDC-Hosted Value Chain and Rural Development On-Line Discussion

In contrast to the Practical Action map, this map charts the value chain vertically and focuses primarily on value chain relationships. The map differentiates clearly between markets for services, embedded services, and services provided by government. These latter are part of the enabling environment, which is divided into three levels. Note how simple this map is. In practice, as with the Practical Action diagram above, value chains are messier and more complex.



For more information, see www.sdc-ruraldevelopment.ch
Source: Becker, Jansen, Roaring and Zveglic 2005

3.2 Stimulating Systemic Market Change – The Process

How are practitioners going about stimulating systemic market change? Several sequencing strategies in development guide practitioners from program design through implementation and monitoring and evaluation. Linear and “objective” processes that move cleanly from analysis, to design, to implementation, to evaluation are becoming less popular. They have given way to more incremental and participatory processes that are messier, but better able to entrench change processes within the private sector.

3.2.1 The Entry Point

There is a wide range of viable entry points to market system development. Some practices include:

- **Analytical Approach:** Leading with market analysis and a defined strategy.²²
- **Action Research:** Reliance on action research to learn more about the market and allow a strategy to emerge from lessons and business partnerships.²³
- **Entrepreneurial/Lead Firm Approach:** Engaging and backing industry leaders in market expansion activities that will stimulate an overall industry change process.²⁴

²² KATALYST n.d.; Emerging Markets Group 2006; Action for Enterprise 2006b; MEDA 2006; DAI n.d.

²³ Adhikary and McVay 2006.

²⁴ Adhikary and McVay 2006; Hans Posthumus Consultancy 2006; Quynh n.d.

■ **Organizing:** Developing strategy by organizing or engaging in dialogue with community groups, local government, and/or business membership organizations.²⁵

■ **Social Issues Approach:** Letting social issues drive strategy, for example environmental issues, gender issues, or improved working conditions.²⁶

A program may ultimately engage in many of the activities described above, but may choose only one or two approaches as a starting point.²⁷

Example 18: Different Entry Points in Systemic Market Development

USAID Kenya BDS

Analytical Approach to Systemic Change: The USAID-funded Kenya BDS program conducted a series of analyses that led them to targeting tree-fruit value chains (mango, passion and avocado) and the fishing sector. Further value chain analysis, in which key stakeholders were consulted, resulted in a value chain development strategy identifying market opportunities and key constraints. Kenya BDS then completed tenders among potential partners who could implement or realize the strategy. For example, in developing the avocado value chain, Kenya BDS determined that small-scale farmers needed to engage in market linkages with lead firms while accessing embedded services to improve quality and reach higher value export markets. Kenya BDS partnered with a lead firm who developed a business model for contracting groups of small-scale farmers for the supply of grade 1 fruit. In exchange for guaranteed product, the lead firm financed the provision of agricultural services such as grafting, spraying and pesticide application. Through embedded service arrangements many farmers were able to access previously unaffordable business services. As productivity and yields improved, sales increased among both participating farmers and the lead firm. This had a demonstrator effect upon neighboring farmers, which stimulated the emergence of a stand-alone agricultural service market in the area. It also led to the integration of 3 additional lead firms that replicated similar programs with additional small-holder farmers.

For more information, contact David Knopp at david@kenyabds.com or see www.kenyabds.com
Source: Emerging Markets Group 2006

IFC SEDF, Bangladesh

Action Research Leading to Systemic Change: In the IFC-implemented and multi-donor funded SEDF Bangladesh program, staff gained only a basic understanding of the Ready-Made Garments (RMG) sector from secondary research. They then approached the national RMG association to discuss potential strategies for helping the sector thrive in the face of significant changes in trade regulations affecting the sector. Determining quickly that improved productivity and quality would be key elements of any strategy, SEDF began exploring with members and a consulting firm the specifics of services that eventually evolved into Productivity Improvement Processes, or PIP. SEDF co-financed pilot PIP services for a few firms, provided guidance and support in their development, studied how they worked, gathered lessons and transferred these to the association and consulting firm offering PIP services. SEDF then co-financed a strategy with the association to promote PIP to its members (127 firms). Now, the association regularly links members with PIP services, from the original provider as well as two local consulting firms that have added the service to their product portfolio. A comprehensive strategy for the sector only emerged from discussion with the RMG association once this initiative was already underway.

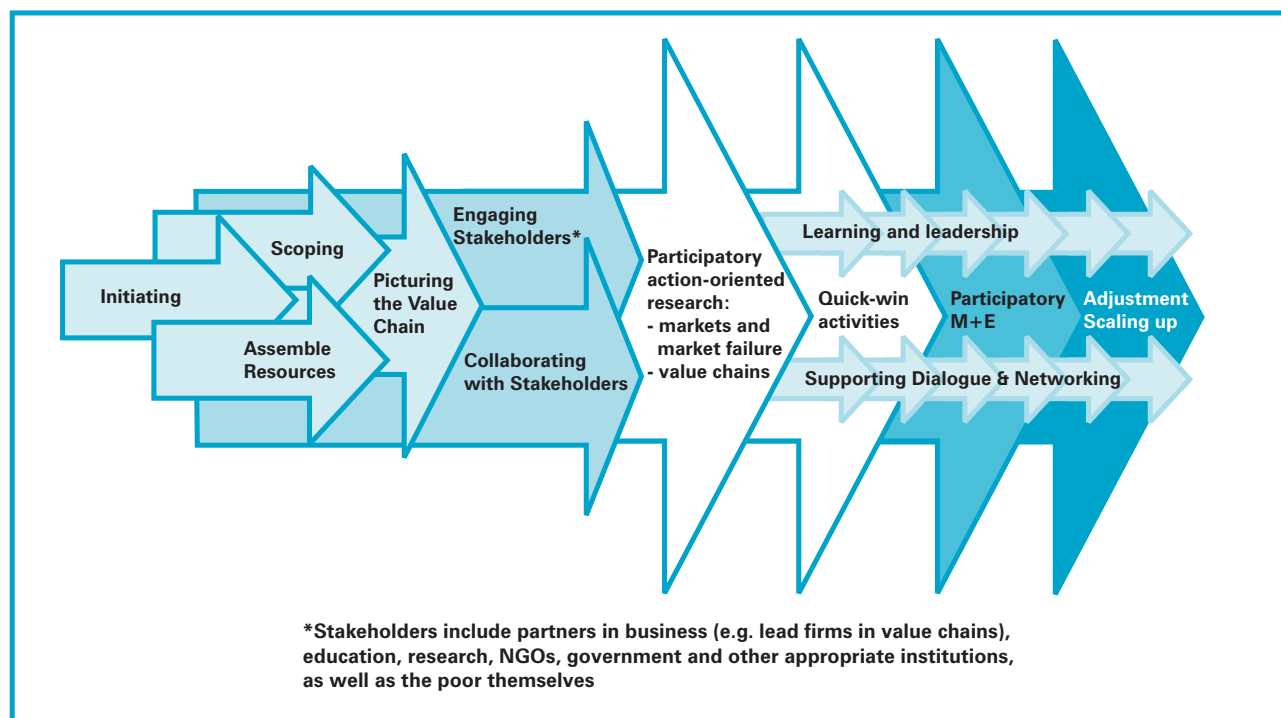
For more information, contact Deepak P. Adhikary at DAdhikary@ifc.org or see www.bdsknowledge.org
Source: Adhikary and McVay 2006

²⁵ Albu and Griffith 2006; Cluster Pulse 2006; UNIDO-SDC 2005a-b; CLUSA/IDE/EMG 2005a; DAI 2006; DAI n.d.; Millard 2006a.

²⁶ Millard 2006a; Quynh n.d.; MEDA 2006 a-e.

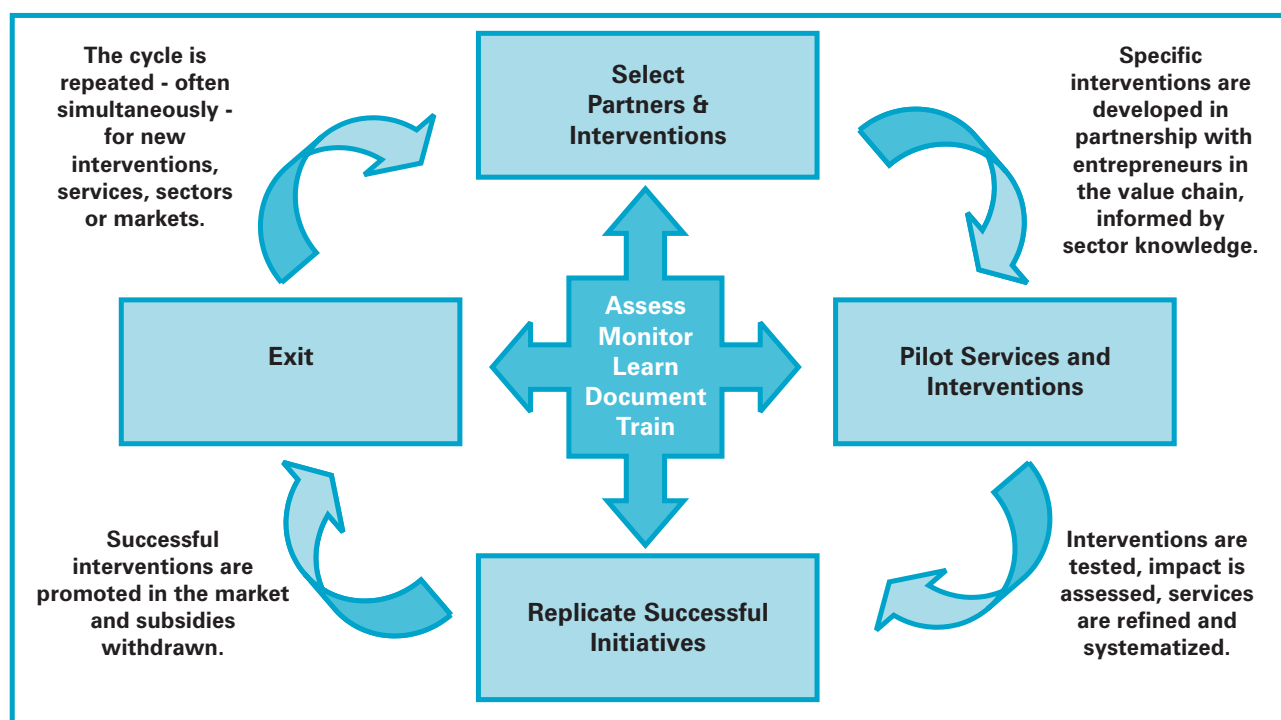
²⁷ Adhikary and McVay 2006.

Figure 2: Initial Sequence for a Pro-Poor Value Chain Development Program



Source: Waltring 2006

Figure 3: SEDF Market Development in Practice



Source: Adhikary and McVay 2006

3.2.2 The Role of Market Assessment

A program's approach to market assessment and action research often drives the sequencing of the rest of the program. Despite initial debates,²⁸ a consensus has formed around:²⁹

- Conducting limited but relatively frequent market research throughout program design, implementation, monitoring and evaluation, according to the program decisions that need to be made; and
- Learning by engaging with businesses in the market, in dialogue and in pilot programming.

These are seen as the two feet that get a program walking – the debate is now more about which foot to put forward first.

3.2.3 Steps in Implementing Systemic Change

Figures 2 and 3 depict two different processes, the first more centered on analysis and the second on action learning. Both incorporate stakeholder engagements and consultation. The first is more linear and clear about stakeholder involvement. The second diagram shows that during a program, the market development cycle will repeat for the multiple layers of core and support markets that programs typically target. Both assume that core market selection has already taken place. Key elements of both approaches, critical for achieving systemic change, are:

- Developing a “business model” or “market model” through action research or market tests with businesses, then refining the model and packaging it for replication;
- Implementing explicit strategies to promote market-driven replication and scale-up of the market model, by supporting learning and leadership in the market and among partners.

Continuous monitoring and evaluation is a core tool in this process.

Definition of a “business model” or “market model”

A business or market model incorporates new or improved business linkages and practices that embody the market development strategy. It is a new way of doing business that benefits businesses and the poor.

The implication of using this kind of process is that programs do not know the precise plan for stimulating the market ahead of time. Therefore, some donors fund open-ended program designs that specify a general approach, timeframe, target sector, and budget, but leave the specific partners and activities up to program implementers.

Example 19: Flexible, Open Program Mandate

DANIDA in Mozambique

The aim of the 5-year, \$55 million DANIDA-funded and Ministry of Agriculture-implemented Agricultural Sector Program Support initiative is to improve the livelihood of smallholder farmers and their families. The program takes a holist approach, and will support the government national agricultural program (PROAGRI), rural road development, and the private sector. Funds for the private sector component, \$16 million, will support coordination and strategy development, agricultural association development, rural finance and value chain (agri-business) development. The goal of the VCD initiative is to improve the position of smallholders in value chains by increasing transparency of markets and market relations, documenting and addressing business environment constraints, and building the capacity of SEs. The program will establish agricultural promotion centers that will work

²⁸ Roduner and Gerrits 2006; Kumar and Sinha 2005; Miehlbradt 2005; KATALYST n.d.; Adhikary and McVay 2006; IDE Vietnam; AED 2006; Emerging Markets Group 2006; Mahnke 2006.

²⁹ Kumar and Sinha 2005; Miehlbradt 2005; Roduner and Gerrits 2006.

with key stakeholders to create economic maps of target areas, and choose and develop a number of value chains, thus building capacity of the stakeholders to continue the process in the long run. The program design specifies adherence to a number of systemic principles and strategies such as stimulating business support markets and embedded services through lead firms and co-financing market development strategies to ensure stakeholder commitment. It also specifies the criteria for selecting value chains. The specific value chains, services, and strategies will be identified during program implementation. Specified outcomes include the number of value chains analyzed and developed, resulting in increased transparency of markets and increased professional capacity of SEs. Once a value chain is chosen and analyzed, more detailed outcomes and indicators are developed as part of the project process.

For more information, contact Lars Christian Oxe at laroxe@um.dk or Hans Posthumus at hans@hposthumus.nl
Source: DANIDA 2006

3.3 The Missing Kernel: Developing and Replicating High-impact, Sustainable Market Models

In the last year, practitioners have generated many lessons learned in stimulating systemic market change. Lessons relevant to specific types of markets are detailed in the remainder of the Reader. Here, however, the Reader focuses on two critical processes missing from many market development programs:

- Engaging the private sector in developing viable business and market models that are likely to be copied and to take off in the wider market.
- Stimulating sustainable market replication of viable models, and enhancing market responsiveness to change by strengthening learning systems within and around core markets.

Example 20: Systemic Market Development Approach

KATALYST and International Development Enterprises in the Pond Fish Sector, Bangladesh

The KATALYST program, funded by DFID, SDC and Sida, and implemented by Swisscontact and GTZ International Services, partnered with International Development Enterprises (IDE) to strengthen the fish sector in Greater Faridpur, Bangladesh.

The Context: KATALYST targeted the fish sector in Greater Faridpur due to growing domestic demand, the growth in fish farming due to over-fishing in rivers, and the extensive involvement of very small-scale and low-income farmers in the value chain.



The Core Market: Meeting domestic demand is a challenge. Fish is even imported, despite the preference for local fish. A significant bottleneck in the value chain is the supply of fingerlings. Nursery owners and fingerling hawkers cannot supply the quality, quantity, and variety needed and bring in fingerlings from other regions. There is also a lack of good quality brood fish to produce fingerlings. Other bottlenecks in the value chain include pond management, fish rearing techniques, and feed management and supply.

Institutions: The main supporting institution in Greater Faridpur is the Faridpur Hatchery, Nursery, and Fish Farmers' Association. In addition, Bangladesh has government research and extension institutions that rear and sell brood fish for hatching, eventually producing fingerlings, but they are far away and produce too few brood fish to meet the demand.

Support Markets: The core market is heavily dependent on the public and NGO sector for supply of brood fish and for training and technical assistance in fish rearing and appropriate feeding techniques. Knowledge is not transferred readily through the market system. In neighboring Jessore, the market is functioning better with higher-quality fingerlings and feed available, and better fish rearing techniques.

The Business Environment: One role of the fish association has been to liaise with local authorities who seem to respond to requests, but otherwise do not offer significant support to the sector. There are few relevant regulations.

The Entry Point: KATALYST entered the market with analytical value chain selection and analysis. The analysis pointed to three key intervention areas (with a number of complementary or sequential interventions per area):

- Improving productivity through improved knowledge
- Improving access to quality inputs – fingerlings and feed
- Strengthening the capacity of the fishing association to develop the sector

During implementation, the program developed a partnership with the fishing association and International Development Enterprises, and worked hand in hand to strengthen the complex and multi-layered learning and input supply systems.

The initiative took the following main steps:

Development of the Market Models:

- *Engaged the regional fishing association* by supporting their efforts to advocate for land and to construct a financially viable physical market for fingerlings. In addition to immediately improving fingerling supply, it also offered a place for nursery owners and fish farmers to meet and discuss fish farming techniques. Thus, through the market farmers have better access to information, which nursery owners can provide as an embedded service. Also, the market provided the association with a clear offer of benefits to members. After this, the project collaborated with the fishing association to deepen their role as a change agent, for example by supporting them to facilitate fish farmer access to private sector training in farming techniques. In nearly all interventions, the association was involved with increasing levels of responsibility and ownership in each consecutive intervention.
- *Provided TA and facilitated business linkages for pilot businesses:* establishing private brood banks.
- *Piloted Private Sector Technical Support Services:* (1) by having the association develop a list of experienced hatchery technicians from neighboring Jessore to develop the market for their expertise in Faridpur; (2) by training nursery owners on pond management and fish rearing so that they can provide this information as an embedded service to fish farmers.



- *Co-financed training through private sector channels:* (1) retailer training for input retailers; (2) demonstrations on the importance of proper feed management, with feed companies and in collaboration with association and nursery owners.

Replication and Resiliency Strategies:

- *The change driver:* The fishing association encourages members to get into fingerling production by pointing to the demonstrated success of the fingerling market and by letting members know how to reach technical experts. The project has also built the capacity of the fishing association to take the lead in on-going market development initiatives.
- *Expanding support markets:* Brood fish producers, technical consultants and input suppliers drive on-going industry strengthening and expansion by encouraging fish farmers to enter the fingerling business. They encourage more fingerling businesses because this is their customer base.
- *Lead firm driving ongoing change:* The feed company is driven to build capacity of input suppliers on an on-going basis so that the retailers will expand the market for inputs.

Results to Date:

- After three years, the initiative has reached an estimated 20,000 fish farmers.
- The project has “exited” from the aspects of the market described above, which continue to expand without further stimulation.
- KATALYST is involved in an evaluation of the initiative to assess outreach and impact, and to help determine additional needed interventions, or whether KATALYST should exit now.

For more information, contact Harald Bekkers at harald.bekkers@swisscontact-bd.org or see www.katalystbd.com

Source: KATALYST n.d.

3.3.1 Developing the Market Model: How to Engage The Private Sector

Regardless of the entry point, at some stage market development initiatives develop a prototype, pilot, or model of improved business practices and improved market relationships, referred to in the Reader as a market or business model.

A common challenge in this process is determining how to engage the private sector to carry out the project’s goals. Early market development programs were encouraged to develop business models that would address market gaps, and to envision what a future market would look like. Then, programs would focus on creating that market. Practice has shown, however, that entrepreneurs are the drivers of market change, and that they are the ones who determine, ultimately, what the market will be like.

Rather than attempting to prescribe specific business models or visions of a future market, more effective and sustainable results emerge when programs stimulate the private sector to devise viable models. Programs share information, help market players identify and understand market gaps, build capacity, offer choices, and support the initiative of entrepreneurs in the market.³⁰ Many effective market developers still often develop a concept for a new type of business function in the market, but there is more recognition now of a) the significant marketing and support required to fill completely empty market gaps, and b) the need for entrepreneurs in the market to engage with, and buy into, the broader vision for market change.³¹

This leads to two questions regarding implementation:

- How do program contact businesses and gain their interest?

³⁰ Dunn 2006; DANIDA 2006; Action for Enterprise 2006b; Becker, Jansen, Roaring and Zveglic 2005.

³¹ MEDA 2006a-e; Adhikary and McVay 2006.

- How do programs attract businesses to deeper involvement in pilot programming and in envisioning a future market that also achieves development goals?

Often, the process is seamless: the initial engagement starts with participatory market assessment with existing business groups, and easily transitions into collaborative planning to reach new markets and address the problems identified in the market assessment.³² In other situations, programs have to take more specific steps.

The specific steps for initial contact and informing businesses about a program might include³³:

- Using information from up-front qualitative market assessment to identify lead firms.
- Conducting diagnostic surveys of firms, selecting appropriate pilot firms from this list, and approaching them with a specific “offer” to help them improve their businesses.
- Approaching business membership organizations, partnering with them in overall program development, and using their existing systems (newsletters, e-mail, contact lists) to contact appropriate firms to involve in early stages of program planning and implementation.
- Advertising opportunities – for example for matching grants for technical assistance to lead firms, or for business opportunities for support service providers – in local media such as trade magazines, local radio, or via direct promotion in a pilot local market place.
- Launching market system development within a local economic development initiative that has engaged the community at a variety of levels – government, private sector, NGO – and

identifying appropriate institutional and private sector partners from this group.

- Using existing personal and professional networks of partners, such as NGOs and trade associations active in the target market.

Some specific practices used to engage businesses include:

- Sharing information about market gaps, potential development strategies, and potential business opportunities in workshops and the media; and offering entrepreneurs technical advice and connections to take advantage of these business opportunities.³⁴
- Offering matching grants for strategic technical assistance to associations, lead firms, service providers, or for pilot programs to develop new ways of doing business.³⁵
- Facilitating business linkages by making introductions, helping businesses negotiate partnerships, and developing and providing models for trusting, mutually beneficial relationships.³⁶
- Offering to co-finance, provide technical assistance for, or facilitate support for trade show participation, trade delegations, or the development of physical market space.³⁷

The most important lesson from any of these strategies is to identify the overlap of the profit incentive for businesses and the program’s objectives, and to clearly demonstrate to potential business partners the benefits of program involvement. When profit incentives and mission goals are well aligned, program support can help businesses drive improved market and industry performance that also benefits the poor.

³² AFE 2006; Albu and Griffith 2006; Adhikary and McVay 2006.

³³ Albu and Griffith 2006; Adhikary and McVay 2006; Becker, Jansen, Roaring and Zveglic 2005; MEDA 2006a-e; ATA 2006.

³⁴ Rikli and Ryazanov n.d.; KATALYST n.d.; AFE; Adhikary and McVay 2006; Albu and Griffith 2006; ATA 2006a-b; Becker, Jansen, Roaring and Zveglic 2005; MEDA 2006d; MEDA 2006b,c,e; Quynh n.d.

³⁵ Adhikary and McVay 2006; Emerging Markets Group 2006; KATALYST n.d.; AED 2006; Quynh n.d.; Action for Enterprise 2006; Mercy Corps 2006 a-b.

³⁶ Action for Enterprise 2006b; Quynh n.d.; Emerging Markets Group 2006; KATALYST n.d.; MEDA 2006b,c,e; Action for Enterprise 2006; Mercy Corps 2006 a-b.

³⁷ Emerging Markets Group 2006; KATALYST n.d.; ATA 2006a-b; Cluster Pulse 2006; Action for Enterprise 2006b.

3.3.2 *Stimulating Market Replication: Strengthening Learning Systems*

Many market development initiatives stop at the pilot level, having engaged some private firms and helped them establish a model for sustainable market relationships and business practices that increase growth and benefit the poor. Other initiatives replicate their models, using additional program subsidies. However, developing market systems involves more than replication of market models developed at the pilot stage. It involves stimulating the market to replicate good market models on an ongoing and sustainable basis. Market replication is at the heart of a systemic approach; indeed, it is the key to reaching scale and helping eradicate poverty.

In addition, market development initiatives are often focused on helping the private sector respond to a current set of conditions. All too often, however, those conditions change rapidly. Market system development involves building the capacity of the private sector to respond to significant shifts, such as changes in:

- Context: for example in Nepal with the changing political conflict;
- Enabling Environment: for example in the global garment industry with the end of “quotas” in the global market;
- Market Demand and Requirements: for example as global consumers start to demand environmentally and socially responsible products;
- Market Competition: for example as global grocery chains penetrate developing-country markets;
- Technology: for example as advances made in information and communication technology or in small-scale energy make new types of business possible.

These two objectives – stimulating market replication of viable business models and strengthening market responsiveness to change – overlap and form a critical element of programs that more effectively reach scale and that create market

momentum for ongoing, sustainable change. Practitioners are using a range of strategies to achieve both goals.

Strategies for market replication and resilience center on developing effective systems for disseminating information and knowledge, promoting learning and adaptation, and catalyzing change in markets. There are incentives and disincentives for information, skill, and knowledge sharing. One role of a development agency is to uncover these, find, and support incentives, and work to overcome disincentives.³⁸ This process seeks to bolster sustainable, market-based systems that incorporate learning, innovation, and knowledge and skill transfer. Specific strategies include:

1. **Strengthening the capacity of a change driver** such as a business membership organization, local government, industry consultants or a group of lead firms to revise a competitiveness strategy, identify and develop new strategies and models, and to disseminate them. As the program works with these partners to develop models, the program also trains and mentors the partners to take over the market stimulation role. Development agencies are strengthening the capacity of change drivers in key skill sets that support ongoing innovation, learning, strategic planning, and information sharing. These include research and information sharing, member services development, and strategic planning for the development of industry-wide competitiveness strategies.
2. **Strengthening information systems to stimulate interest in new models and disseminate knowledge and skills.** For example, programs focus on:
 - Private-sector focused media supported by advertising, such as radio shows, regular newspaper features, and business-to-business magazines;³⁹
 - Information flows in trade associations and business membership organizations via e-mail, newsletters, workshops;

³⁸ CLUSA/IDE/EMG 2005a; Action for Enterprise 2006b.

³⁹ Adhikary and McVay 2006; CLUSA/IDE/EMG 2005a; Action for Enterprise 2006b.

- Informal information flows via business transactions;
 - Advertising markets that help entrepreneurs promote their capacity building services to replicate good business practices or share new innovations and skills;
 - Trade shows that help businesses come together to share information and make deals.
3. **Strengthening learning systems which promote innovation and adaptation and which build the capacity of private enterprises to adopt new models.** Strategies include the following:
- Building the capacity of lead firms, associations or intermediaries to generate and pass on learning and skills.⁴⁰
 - Linking learning institutions – from vocational schools to universities – with markets. This helps institutions gear training and education to the markets; supports long-term availability of industry-responsive research, training and technical advice; and encourages businesses to take advantage of these resources.⁴¹
 - Building the capacity of trainers, mentors, and advisors within the market system in adult learning tools and methods. Trainers might be institutions, consultants, lead firm staff, informal sector intermediaries, or others who are training businesses.⁴²
 - Developing appropriate learning tools that help in technical skill transfer.⁴³
 - Promoting use of distance and internet learning among change drivers and other businesses and institutions in markets.⁴⁴
4. **Stimulating inter-firm linkages and support markets that transfer information, knowledge, and skills, and that build capacity to replicate viable models.** Strategies include the following:
- Capacity building for consultants and training firms to market services that transfer knowledge and skills and build the capacity of core market firms to replicate successful models.
 - Encouraging pilot lead firms that are trying to promote an overall competitiveness strategy to promote the new model among their peers, and to offer technical guidance if appropriate.
 - Encouraging informal, small-scale intermediaries to expand their businesses by bringing in sales agents below them and establishing multi-layer networks.
- Stimulating market replication of good business models and developing market responsiveness are best considered prior to or during the pilot stage. Most of these strategies emerged during the pilot phase, and were expanded over time as the program considered how to scale up and exit. Markets must expand and benefit more people over time, as well as respond effectively to crises and market shifts. To do that, there must exist effective systems for disseminating information, promoting learning and adaptation, and catalyzing market changes.
- As a whole, programs that focus on market development have so far made significant progress in developing market models. The next frontier is to stimulate markets to replicate these models, and to create new models to reach the full poverty eradication potential of developing market systems.

⁴⁰ Idrovo and Boquiren 2005; KATALYST n.d.; Emerging Markets Group 2006.

⁴¹ ATA 2006a-b; Conservation International 2006; Adhikary and McVay 2006; ATA 2006 a-b.

⁴² Hans Posthumus Consultancy 2006; Cluster Pulse 2006; KATALYST n.d.; MEDA 2006b,c,e.

⁴³ Adhikary and McVay 2006; MEDA 2006b,c,e; DFID/ILO; KATALYST n.d.; UNCTAD 2006.

⁴⁴ Cluster Pulse 2006; UNCTAD 2004a-b.

4. Current Trends in Reforming the Business Environment

The potential for markets to create a path for the poor to work their way out of poverty is heavily dependent on the business environment⁴⁵ – government laws, policy and regulatory influences, government services, practices, and infrastructure that affect markets, as well as the informal business culture that governs market interactions.⁴⁶

In the past year, donors' interest in reforming the business environment (BE) in developing countries has surged.⁴⁷ For most donors, this interest comes from a growing concern that approaches targeting poverty alleviation have not yet delivered the anticipated results. BE reform, on the other hand, benefits all enterprises, large and small. The theory is that perhaps a focus on economic growth alone is necessary and sufficient to achieve sustainable poverty alleviation.

Market development practitioners approach BE reform from a different angle. Those taking a more systemic approach to market change realize that an enabling BE is often necessary to achieving targeted pro-poor growth. BE work is therefore becoming more integral to market development and value chain initiatives.

This chapter summarizes these two approaches to BE reform.

4.1 BE Reform to Stimulate Macroeconomic Growth

BE reform to encourage macroeconomic growth generally aims to assist enterprises of all sizes, with

**Gap:
Assessing the Impacts of
BE Reform on the Poor**

There are significant correlations between a conducive business environment, improved performance of the private sector, and sustainable poverty alleviation. However, there is little information available yet about the poverty impact of recent specific BE interventions in developing countries.

no focus on the particular needs and challenges of small enterprises. Donors' interest areas of BE include judicial and other dispute resolution mechanisms, legal institutions for a market economy, personal and property rights, corporate governance, regulation and competition policy, tax and policy administration, export development, and trade facilitation. Some agencies focus their efforts primarily at the national level; others concentrate on local government regulations and practices.

Most strategies for BE reform both try to stimulate demand for reform within government and/or among other stakeholders, and to either inform policymakers of the issues or actually build capacity to implement reforms.⁴⁸ There is extensive literature on broad BE reform.⁴⁹ A brief summary of some of the most popular strategies follows.

⁴⁵ Tanburn 2006b; Donor Committee for Enterprise Development 2006a.

⁴⁶ There are a range of definitions for the BE, and some refer to it as the "investment climate".

⁴⁷ The Donor Committee for Enterprise Development organized a global Conference on this theme at the end of 2005. All of the papers and associated presentations are posted on www.businessenvironment.org, together with a 10-page overview and other associated documentation.

⁴⁸ Tanburn 2006b.

⁴⁹ See www.businessenvironment.org; www.enterprise-development.net; rru.worldbank.org.

Example 21: Benchmarking the BE

World Bank Group, global

One of the most publicized benchmarking efforts is “Doing Business”, published by the World Bank Group. The publication rates 155 countries according to several simple measures, such as the number of days it takes to register a new business. The opening paragraph of the 2006 report is clearly designed to catch the attention of policy makers. Indeed, the Doing Business initiative has been very successful in generating worldwide press coverage:

“If you were opening a new business in Lao PDR, the start-up procedures would take 198 days. If you were opening one in Syria, you would have to put up \$61,000 in minimum capital—51 times average annual income. If you were building a warehouse in Bosnia and Herzegovina, the fees for utility hook-up and compliance with building regulations would amount to 87 times average income. And if you ran a business in Guatemala, it would take you 1,459 days to resolve a simple dispute in the courts. If you were paying all business taxes in Sierra Leone, they would take 164% of your company’s gross profit.”

Source and for more information, see www.doingbusiness.org

■ **Benchmarking:** involves generating an index or “score” for the business enabling environment for individual countries or cities, based on specific indicators.⁵⁰ Anecdotally, benchmarking has generated strong demand for reform. It is unclear, however, whether this indicates a desire for deep-rooted reform or merely a desire to improve one’s ranking.⁵¹

■ **Regulatory Impact Assessment (RIA):** is one of about 30 assessment tools being used to analyze the costs and benefits of government policies and regulations.⁵² Some agencies are using this tool simply as a method of assessing the policy and regulatory environment. Others are building the capacity of national or local governments to make appropriate reform choices based on the tool.⁵³

■ **Research and Information Dissemination:** often leading to policy recommendations. Some agencies leave the task of adopting and

implementing recommended policies in the hands of governments and stakeholders. However, practitioners are finding that while research and information dissemination is often a useful first step in changing specific policies and regulations, it is rarely sufficient to achieve change.

■ **The “Regulatory Guillotine”:** focuses on vastly reducing regulation by allotting a specific time during which all regulations in force must be placed (by government authorities) on a register. After the period specified (for example, a year), any regulation not on the register is declared invalid.⁵⁴

⁵⁰ DFID recently compiled a database of 30 tools for benchmarking the business environment, currently published by development agencies, academia and the private sector.

⁵¹ Sulzer, Hitchins and Elliott 2006.

⁵² For a summary of 30 assessment tools, see Silva Leander’s paper and presentation from session 1.1 at the Donor Committee Conference in Cairo, Egypt, 2005 at www.businessenvironment.org.

⁵³ Sulzer, Hitchins and Elliott 2006.

⁵⁴ Tanburn 2006b.

Example 22: Regulatory Guillotine™

Jacobs and Associates, Moldova, Kenya, and Ukraine

"Jacobs and Associates has designed and trademarked a rapid reform process called the Regulatory Guillotine and helped to implement the approach in Kenya, Moldova and Ukraine. The reviews lasted 2-6 months, during which time many regulations were eliminated. For example, Moldova had 67 Inspectorates with over 1,100 regulations for business. After review, it was decided that:

- 426 formal acts met the criteria of review and should be included in the Registry
- 285 formal acts (or 35 % of those relevant to businesses) should be amended
- 99 formal acts (or 12 % of those relevant to businesses) should be discarded (many of these had not been published or authorized by higher level laws.)

Similarly, Kenya was found to have over 1,300 business licenses (including 600 by local authorities) and fees imposed by 178 State bodies, with more being added all the time. 35 licenses were eliminated in 2005 with a further 700 recommended for elimination in 2006. In Ukraine, 15,000 regulations were identified, of which 4,900 were repealed during 2005."



For more information, contact Diana Rowen at janda@regulatoryreform.com or see www.regulatoryreform.com
Source: Tanburn 2006b

- **Working with champions or change agents:** acknowledges that substantive change generally occurs because an individual, or small group of individuals, drives through a series of reforms with commitment and passion.
- **Working with reform-minded governments:** helps actors move rapidly while demand for reform is strong.

Although there are now a wide range of BE reform programs and some powerful analytical tools have been tested, a coherent strategy for moving from analysis to implementation has yet to emerge. There is also as yet little mention in current BE literature of direct poverty alleviation. The philosophy rests rather on the conviction that the best way to help the poor out of poverty is to achieve economic growth at the national level. This approach raises questions about how to ensure that the perspective of the poor is

taken into account, and how to measure actual impacts on the poor from specific BE reforms.

4.2 Poverty-Focused BE Reform

Practitioners and programs taking a more explicit approach to poverty eradication are focusing BE reform efforts in three ways:

- targeting aspects of the BE that are more likely to have direct poverty-reducing impacts;
- taking a systemic approach to promoting reform, which emphasizes sustainably incorporating the poor in the reform process; and
- integrating BE reform with market development.

These three approaches are discussed in this section and section 4.3 below.

4.2.1 Targeting Poverty-Relevant Aspects of the BE

There is considerable debate and little empirical evidence about what kinds of reforms most significantly benefit poor people. However, programs focused on poverty eradication seem to focus more on:

- Policies specific to industries in which lead firms are attempting to subcontract to SEs, for example allowing lead firms to export directly rather than going through national auctions or similar processes.⁵⁵
- Local government regulations and practices, where the poor have closer interaction with government.⁵⁶
- Informal business and governance practices – such as gender discrimination – as many poor people operate outside of official regulations.⁵⁷
- Incentives and disincentives to formalize, such as land title reform to facilitate access to credit.⁵⁸
- Labor issues and standards relevant to formal and informal workers.⁵⁹
- Traditional, village level courts that may contradict and overrule local government jurisdiction, often to the detriment of women and younger people's rights.
- Government procurement policies and procedures, including incentives to procure from and/or subcontract to SEs.⁶⁰

4.2.2 Systemic BE Reform that Incorporates the Poor

"Business environment reform can occur at regional, national and sub-national levels and is the responsibility of developing country governments, the private sector and civil society; these actors should own and manage reform processes, donor agencies can only support and enhance their initiative."

Donor Committee for Enterprise Development 2006a

Some donors and practitioners argue that their role may not be so much to recommend specific reforms as to build the incentives and capacity of the private sector, civil society and governments to collaborate in reforming the BE.⁶¹ Agencies with this perspective are moving towards a more systemic approach to BE reform; this approach emphasizes capacity building for long-term reform rather than change of specific policies.⁶² The resulting programs are based on an understanding of the BE as a system in which there is supply, demand, and supporting functions and rules, performed by multiple players.⁶³ Poverty-focused practitioners also stress the importance of ensuring that any reform process incorporates poverty issues, and helps to engage and build capacity of organizations that represent the poor in the reform process.⁶⁴ Several strategies which use a systemic approach to BE reform are described below.

⁵⁵ Technoserve 2005; Millard 2006a.

⁵⁶ Becker, Jansen, Roaring and Zveglic 2005.

⁵⁷ MEDA 2006b,c,e.

⁵⁸ de Soto 2000.

⁵⁹ Adhikary and McVay 2006.

⁶⁰ World Education 2005.

⁶¹ Donor Committee for Enterprise Development 2006a; Sulzer, Hitchins and Elliott 2006; Kikeri 2006; Downing, Snodgrass, Northrip, and Woller 2006; Tanburn, 2006b.

⁶² Sulzer, Hitchins and Elliott 2006; Idrovo and Boquiren 2005; World Education 2005; Kurz and Fröde 2005; KATALYST 2006.

⁶³ Sulzer, Hitchins and Elliott 2006.

⁶⁴ Kikeri 2006.

■ **Building the capacity of advocacy groups:** either on an industry-specific basis, or more broadly and particularly those incorporating and/or representing the poor.⁶⁵ Some strategies in use are:

- Jointly conducting studies on particular aspects of the BE;
- Training on advocacy;
- Providing funding for specific advocacy initiatives; and
- Promoting linkages between associations and businesses or institutions that could support their advocacy efforts.

Other initiatives support sustainable information, advocacy and dialogues, for example by promoting media as a mechanism for businesses to voice their concerns about government policies and practices.⁶⁶

■ **Developing mechanisms for public-private dialogue (PPD):** to establish a consultation process between the public and private sectors to improve the BE.⁶⁷ Some form of PPD has been instrumental in changing government policies, regulations or practices in several programs.⁶⁸ PPD often starts in the form of consultative meetings with private sector representatives and government officials, often around specific policy issues. However, a number of programs aim to institutionalize the PPD process so that future reform and policy formulation processes take into account the views of the private sector. Several projects have had success with establishing formal committees, at either the local or national levels, comprised of both private sector representatives and government officials. These committees consider issues ranging from industry-specific regulations, to infrastructure, to the particular concerns of local SEs.⁶⁹ While programs can facilitate PPD and even partially finance the dialogue process in the early stages, it is critical

that the private sector and government drive the process, and that small and informal enterprises find a “voice” in the process.⁷⁰

■ **Building the capacity of local governments:** which, in many countries, have both benefited and been burdened by rapid decentralization, resulting in sometimes poor local government practices for supporting private sector growth. Strategies include training and/or mentoring local governments in regulatory reform or efficient delivery of business licensing services and facilitating dialogue among local government agencies and private sector associations to develop industry specific enterprise development plans.⁷¹

“Local government efforts and enforcement practices affect the ability of the private sector to participate in and benefit from market opportunities. Poor local government operations and enforcement of legal and regulatory regimes increases transactions costs, informality, commitment failure risks, and shortens business cycles limiting investments in relationships and upgrading.”

CLUSA/IDE/EMG 2005a

■ **Developing BE reform support functions:** which sustainably help local BE reformers to function effectively. For example, programs encourage the media to better cover businesses, link stakeholders to specialist service providers for services such as IT or research and analysis, and strengthen local institutions such as universities to conduct BE-related work.⁷²

⁶⁵ Idrovo and Boquiren 2005; KATALYST 2006; www.publicprivatedialogue.org.

⁶⁶ KATALYST 2006; Kurz and Fröde 2005; Tanburn and Kamhanda 2005.

⁶⁷ There is a new website dedicated to this strategy at www.publicprivatedialogue.org.

⁶⁸ TechnoServe 2005; Idrovo and Boquiren 2005; World Education 2005; DAI 2006; Hilz-Ward 2005a; Kurz and Fröde 2005.

⁶⁹ Becker, Jansen, Roaring and Zveglic 2005, KATALYST 2006; Idrovo and Boquiren 2005.

⁷⁰ Donor Committee for Enterprise Development 2006a.

⁷¹ Idrovo and Boquiren 2005; World Education 2005; Roduner and Gerrits 2006; KATALYST 2006; Sulzer, Hitchins and Elliott 2006.

⁷² Sulzer, Hitchins and Elliott 2006; Tanburn and Kamhanda 2005.

Example 23: A Systemic Approach to BE Reform

Swisscontact, Russia

Swisscontact implemented an SME project from 2002-2006 in Nizhny Novgorod, Russia with funding from SDC. The project had several components including BE reform. Swisscontact worked to keep local stakeholders in the driver's seat of the reform process and planned all interventions together with public and private sector players. Key interventions included:

- **Strengthening private-sector business membership organizations (BMOs):** For example, Swisscontact supported the formation of the Guild of Bakers which demonstrated that it could successfully advocate for members interests. Within only 18 months, more than 60 paying members joined and the group reached financial sustainability.
- **Building the Capacity of Local Governments:** Swisscontact first conducted a detailed needs analysis to understand the capacity and orientation in local governments with regards to businesses. Then, Swisscontact prepared and delivered training programs for government employees designed to raise awareness about business issues and government's role. Nine municipalities were involved, and the regional Ministry for SME supported the program. Lastly, Swisscontact built the regional Ministry's operational capacity to conduct training needs analysis.
- **Enhancing public-private dialogue and BE support functions:** Among other interventions, Swisscontact supported the establishment of regular small business columns on business environment and regulation issues in leading business newspapers. Partners from small businesses and government were encouraged to engage with the press, which promoted a more constructive relationship among all three types of players: government, private business and the media.

The initiative has not yet assessed impact on local businesses.

For more information, contact Marianne Sulzer at marianne.sulzer@swisscontact.ch

Source: Sulzer, Hitchins and Elliott 2006

4.3 BE Reform in Support of Value Chain Development

Recent research indicates that industry-specific policy and enforcement issues are collectively the most important investment climate issues for businesses.⁷³ Some practitioners echo this finding, noting that broad policy level initiatives often fail to address the detailed regulatory issues that block SE growth and value chain competitiveness.⁷⁴ For example, BE concerns in the fish sector include allocation or zoning of land for use as a fish market;

the months of the year when lake or river fishing is permitted; the size of fish allowed to be removed from a lake or river; and the administration of these processes. Sometimes, the interests of SEs need to be specifically addressed. For example, in Bangladesh's light engineering sector, only firms with purchasing receipts could apply for a refund of import duties; this presented a barrier for smaller, informal firms.⁷⁵

On the other hand, value chain development is also significantly hindered by broad BE concerns.⁷⁶ For

⁷³ Subramanian and Palmade 2005.

⁷⁴ Adhikary and McVay 2006.

⁷⁵ Adhikary and McVay 2006.

⁷⁶ TechnoServe 2005.

example, an innovative IT-based agricultural marketing initiative in India is slowed by irregular electricity and connectivity, and all export industries are hampered by the notoriously complex and slow port operations in Bangladesh. In a few programs, synergy between BE and value chain initiatives is beginning to drive priorities in BE work in an effort to create more focused, measurable results from both efforts.⁷⁷

Value chain-focused BE reform has a number of advantages. Reform at the level of specific value chains may be more achievable within a program's time frame than macro-level changes. Value chain-specific change may require a lower level of authority for approval. The constituencies involved in value chain-specific regulations may be fewer in number, and have more closely aligned goals. Advocacy groups for value chain-specific interests tend to be more coherent, and programs may have existing relationships with them. Additionally, working with value chain businesses and associations on advocacy can complement efforts on other value chain issues.⁷⁸

Value chain development programs promote value chain-specific BE reform using many of the same strategies employed in more general BE reform efforts. These include research and information dissemination, benchmarking, building the capacity of advocacy groups, PPD, and working with local governments. Some innovations and lessons learned specific to value chain development programs follow.

■ **Including the BE within value chain analysis:**

Researchers and practitioners are finding that value chain analysis can be a useful tool for identifying industry-specific BE constraints to competitiveness.⁷⁹

■ **Benchmarking value chain costs:** Related to the above strategy, benchmarking value chain costs in competing countries can highlight national industries' barriers to global competitiveness, including barriers due to government policies.⁸⁰

■ **Value chain-specific PPD:**⁸¹ A few examples:

- In the Philippines, PPD at the local level resulted in a joint private sector and government marketing agency for the tourism sector.⁸²
- In Tanzania, the Muheza Socioeconomic Alliance consists of project-supported citrus farmer groups, local government, other development organizations, NGOs, food processors, traders, and transporters in the citrus sector. The Alliance not only addresses pressing business issues facing the sector such as orange theft, but also critical socioeconomic issues such as gender, HIV/AIDS, and natural resource management.⁸³

⁷⁷ Adhikary and McVay 2006; Becker, Jansen, Roaring and Zveglic 2005; KATALYST 2006, Tanburn and Kamhanda 2005; Idrovo and Boquiren 2005; World Education 2005; Becker, Jansen, Roaring and Zveglic 2005; DAI 2006.

⁷⁸ Nadvi, Khalid et al 2004; World Education 2005.

⁷⁹ Subramanian and Palmade 2005.

⁸⁰ Subramanian and Palmade 2005;

⁸¹ Becker, Jansen, Roaring and Zveglic 2005; Becker, Jansen, Roaring and Zveglic 2005; World Education 2005.

⁸² Hilz-Ward 2005a.

⁸³ DAI Pesa Tanzania.

Example 24: Value Chain Specific BE Reform

TechnoServe, Coffee Industry, Tanzania

Coffee is one of Tanzania's major exports, and almost all of Tanzania's coffee is grown by 400,000 poor smallholder farmers. The traditional commodity pricing system, which rarely rewarded quality, trapped them in a vicious cycle of declining quality and productivity, exacerbated by declining world prices.

Over the past eight years, with funding from USAID, USDA, the Swiss State Secretariat for Economic Affairs and private donors, TechnoServe helped coffee industry stakeholders in Tanzania to develop and implement a plan to transform Tanzania into one of the world's premium specialty-coffee producing nations. Targeting the entire supply chain, TechnoServe created a "farmer business group" model that helps small-scale growers improve quality, obtain financing, establish contracts with overseas buyers, and ultimately increase profits. TechnoServe also helped establish a farmer-owned trade association, KILICAFE which now has over 9,000 small-holder farmer members, and encouraged government policy reform to lower farm-gate taxation and authorize premium coffee producers to sell directly to foreign buyers.

With support from McKinsey & Company, and at the invitation of the Tanzanian government, TechnoServe conducted an analysis of Tanzania's coffee taxation policies to determine their effects on the overall industry. The study revealed that Tanzania had high taxes on coffee compared to five "peer" coffee producing nations. TechnoServe, KILICAFE, the Tanzania Coffee Board (TCB) and key industry stakeholders presented these findings to the Tanzanian government. In June 2003, the Tanzanian Minister of Finance pledged the government would harmonize and rationalize its taxes and levies to boost rural productivity, and that measures would be taken to reduce local licenses and permit fees. These reforms would significantly reduce the number of "nuisance taxes" that plagued smallholder farmers, amounting to tax levels of up to 21% on coffee.



In October 2003, the TCB enacted new regulations advocated by TechnoServe, KILICAFE and others to allow high-quality coffee growers to sell directly to specialty buyers and bypass the national auction system. TechnoServe helped the TCB and the government draft new regulations so specialty coffee growers could receive premium

prices through direct negotiations with roasters. KILICAFE became the first organization to export specialty coffee directly to overseas buyers. TCB's new licensing procedure removed a significant barrier between Tanzanian specialty coffee producers and international buyers willing to pay premium prices.

For more information, contact Luba Vangelova at LVangelova@tns.org or see www.technoserve.org or www.microlinks.org
Source: TechnoServe 2005

5. Developing Value Chain Systems that Benefit the Poor

Value chain development⁸⁴ (VCD) is not new. In recent years, though, programs have been attempting to develop entire value chain systems in order to reach scale and enable continued growth of value chains after programs end.⁸⁵ Dynamic value chain systems respond to market shifts by developing and transferring knowledge to intermediaries and producers, so that they can adapt and maintain a competitive market position over time. Vibrant value chain systems grow and continuously incorporate new businesses, generating ever-increasing jobs, income, and assets. In this manner, value chain systems that benefit the

poor have the potential to significantly reduce poverty for large numbers of poor people.

Value chain development forms a core part of a range of private sector development strategies, from export promotion to local economic development and clustering strategies.⁸⁶ This chapter focuses on strategies to develop value chain systems that work for the poor. It considers several design process challenges, then focuses on innovations in new market models and on stimulating market replication of effective models throughout a market system.

The Critique of Value Chain Development

Although value chain development is a core part of many private sector development strategies, some argue that it can be detrimental to the private sector.⁸⁷ According to this view, it is the role of the private sector – not development agencies or the government – to identify market opportunities, invest resources and develop competitiveness strategies either independently or in conjunction with other businesses. Development agencies, in selecting specific chains and markets to target over others, distort investment into that sector. Programs that ascribe to this philosophy tend to take two forms. These are 1) BE initiatives, or 2) challenge grants, matching grants or public-private partnership programs. As described in Chapter 4, BE work can be conducted on a systemic basis. In contrast, challenge grants are effective in engaging firms to pilot new business and market models, but have limited impact on changing entire market systems. It is possible to take a systemic approach to building the capacity of the private sector to investigate market opportunities, as in the Cluster Pulse case. (See Chapter 1 and Example 2.)

⁸⁴ A value chain is the set of businesses and their interactions that bring a product from raw material to final customer. It is more narrow than a sector or a sub-sector, but broader than a single firm's supply chain.

⁸⁵ AED 2006; AFE 2005; Springfield Centre 2005; Aid to Artisans 2006a-b; Tanburn 2005; CLUSA/IDE/EMG 2005a; DAI n.d.; Tanburn and Kamhanda 2005; Knopp 2005; Emerging Market Group 2006; GTZ 2006h; Quynh n.d.; Muller-Glocce and Lehmann 2006; Meyer-Stahmer, Jorg and Frank Waltring 2006; Waltring 2006.

⁸⁶ Altenburg 2006; Meyer-Stahmer, Jorg and Frank Waltring 2006; Waltring 2006; Downing, Snodgrass, Northrip and Woller 2006; The On the Frontier Group has developed an interesting cluster-based strategy for value chain development. See www.onthefrontier.com.

⁸⁷ Baker 2006.

Gap:**Comprehensive Tools for Systemic, Pro-poor VCD**

There are a wide range of value chain development tools including value chain selection tools⁸⁸, guidance for integrated analysis and design⁸⁹, diagrams for value chain mapping, and specific manuals and guidance such as good practices in contract farming⁹⁰.

However, only some focus on developing systems or reaching and generating benefits for the poor. Only a few guide practitioners through an entire process of program design and implementation. None focus on monitoring and evaluation. Thus, there are still significant gaps in tools for developing value chain systems.

5.1 Adapting Value Chain Development to Benefit the Poor

Traditional VC development helps businesses in developing countries sell to high-value, global markets. Agencies developing value chains that benefit the poor or that meet other social objectives, such as environmental preservation and gender equity, have adapted value chain development in several ways.

- **Target different types of value chains:** Targeting not only chains that engage the poor, but also
 - a) chains that target more accessible markets such as commodity, regional, or national markets

or b) service value chains, such as tourism or construction.⁹¹

- **Target different types of firms within the chain:** Considering SEs not only as producers, but also as distributors and service businesses in the chain.⁹²
- **Let social issues drive value chain system development:** Selecting value chains and designing interventions for specific social purposes, such as environmental protection, gender equity, or post-crisis reconstruction.⁹³
- **Mainstream social issues into value chain system development:** Identifying and promoting competitiveness strategies that also address social issues; allocating specific funds and staff to social issues, and integrating such work into VCD.⁹⁴
- **Geographic targeting:** Focusing on areas where poor people are concentrated, rather than those with the highest potential.⁹⁵
- **Assess and monitor benefits to the poor:** Assessing upgrade potential in detail prior to significant engagement,⁹⁶ and/or developing and attempting to implement regularly monitored poverty indicators, such as wage rates and average hours for workers, to assess income generated for poor workers.⁹⁷

This chapter highlights practical examples of the above strategies as it describes VCD initiatives designed to benefit the poor.

⁸⁸ Action for Enterprise 2006b; DAI n.d.; Shauket, Ahmed and Condor 2005; Mahnke 2006; USAID 2006d.

⁸⁹ Kumar and Sinha 2005; Meyer-Stahmer and Waltring 2006; USAID 2006d; Albu and Griffith 2005; www.actionforenterprise.org.

⁹⁰ KATALYST n.d.; Adhikary and McVay 2006; van Bussel 2005.

⁹¹ Aid to Artisans 2006a-b; KATALYST n.d.; van Bussel 2005.

⁹² KATALYST n.d.; van Bussel 2005; Emerging Markets Group 2006; Shepherd 2005.

⁹³ Millard 2006b; MEDA 2005a, 2006b; Qunyh, Vu Nhu. n.d; GTZ 2005c; MEDA 2006c; Roenne and Wagner 2005; Irwin, *et al* 2005; KATALYST n.d.

⁹⁴ Adhikary and McVay 2006; GTZ 2005c; Emerging Markets Group 2006; KATALYST n.d.; Becker, Jansen, Roaring and Zveglic 2005.

⁹⁵ Waltring 2006.

⁹⁶ IDE 2005.

⁹⁷ Adhikary and McVay 2006.

Example 25: Adapting Value Chain System Development to Reach the Poor

MEDA and ECDI Pakistan



ECDI and MEDA selected the embroidered garments value chain because of its importance to the livelihoods of rural, homebound women, and the significant and growing demand for embroidered clothing in urban markets. Because women rely heavily on informal, casual activity of their male relatives for market access, there was no clear intermediary with whom the program could work, and cooperatives were not an option for most women due to their limited mobility. Rather than launch a social enterprise, ECDI and MEDA identified and replicated a business model in the market of

women-to-women trading, in which training and other services can be incorporated. The program felt this group of more mobile women traders would form an important second target population whose presence in the marketplace would contribute to changing gender perceptions and market practices. The program targeted low-income areas of Pakistan, and has expanded to more geographically and socially isolated regions. Managers have taken care to monitor sales going to producers. The average sales from embroidery piecework were \$6 a month prior to the program, and have increased to \$20 per month for over 2,000 rural women by halfway through the three-year program. In general, the women are not paying for services or inputs, nor incurring debt to the traders. The program is also monitoring qualitative aspects of the relationship – such as price per piece and ability to sell to more than one agent. In these ways, MEDA and ECDI Pakistan have adapted value chain development to reach the poor.

For more information, contact Helen Loftin at hloftin@meda.org or see www.bdsknowledge.org and www.meda.org

Source: MEDA 2006a-d; MEDA 2005a

Gap:

Systemic approaches to livelihood security in HIV/AIDS-affected communities

In the last two years, some useful guidance has been published to help value chain developers consider HIV/AIDS issues in their work.⁹⁹ However, there is still a dearth of real experience in stimulating market systems that address livelihood security issues in HIV/AIDS-affected communities.

This gap remains despite the high prevalence of HIV/AIDS in poor communities, particularly in Africa.

Demonstration programs that bring together PSD experts and health specialists to identify innovative, systemic solutions to helping HIV/AIDS-affected communities survive would help fill this gap.

5.2 Selecting Value Chains to Target – Implications of a Systemic Approach

Risk, particularly for the poor, has emerged as a central concern in selecting value chains. In choosing a particular value chain, development programs are suggesting to countries, communities and households, that they favor the risk of investment in one area of business over another, in one market opportunity over another.⁹⁸ Risk is also a factor in determining how to define a program's targeted value chains, for example, a whole sector or only one specific product. With too broad a definition, the project is overwhelmed and disappoints expectations. With too narrow a definition, the program risks failure if bottlenecks in that value chain prove insolvable, or if markets suddenly trend for the worse.

⁹⁸ Baker 2006.

⁹⁹ GTZ Roenne and Wagner 2005; Bronwyn, Grant Parker and Morgan 2005.

Developing value chain systems implies three recommendations on the VC selection process:

- **Focus more narrowly:** A systemic development approach is more complex than direct value chain development. It may warrant a more narrow value chain definition to make the initiative manageable within donor timeframes and budgets.
- **Select inter-linked chains:** Market system development often involves linking different markets together, so programs seek to target interlinked value chains. For example, select a range of agri-business chains that may have similar constraints – such as fertilizer supply – that can be addressed with one initiative. Or, select chains that feed into one another to maximize forward and backward linkages.
- **Build capacity to select target VCs:** An approach that builds the capacity of change drivers might also build the capacity of government agencies or private sector associations to identify appropriate target value chains on an ongoing basis.

5.3 Choosing Target Markets and Developing Competitiveness Strategies

“A chain cannot be moved by pushing; in order to move a chain, you have to pull it.”¹⁰⁰ This means a value chain system will only develop if linked to strong consumer demand. Furthermore, value chains thrive when businesses in the chain come together to market themselves using a common competitiveness strategy.¹⁰¹ Program designers and practitioners differ, however, in the kind of competitiveness strategies they pursue.

Specific vs. General

Some practitioners devise specific competitiveness strategies that identify and capitalize on a value chain’s comparative advantage. This creates a

strong, viable market position for reaching a specific market. During implementation, such programs focus narrowly on the firms capable of reaching the defined target market, and on the constraints in realizing the specific strategy.¹⁰² Other programs specify a range of market opportunities and identify performance gaps, compared to industry benchmarks, where the value chain needs to improve. This process can serve as a tool for mobilizing stakeholders to develop a common competitiveness strategy.¹⁰³ During implementation, such programs seek to open doors or present options to value chain businesses. Selecting only one path, in contrast, may only open opportunities for a few businesses, sometimes the more elite.¹⁰⁴ Often an initial path, for example a domestic market with an import substitution strategy, can build firm capacity to capitalize on greater, more challenging market opportunities, such as selling to neighboring countries.¹⁰⁵

Example 26: Specific and General Competitiveness Strategies

Specific: Conservation Coffee: To sell high quality, environmentally sound, shade-grown coffee to a single, high volume, higher price buyer, Starbucks, to compete against lower-cost conventional coffee produced globally.

Source: Millard 2006

General : Thai Palm Oil: To significantly increase productivity of the small-holder production and processing system to compete in the domestic market against cheaper imports from Malaysia, and open the potential for competing in larger markets such as China and India.

Source: GTZ 2006h

¹⁰⁰ Waltring 2006.

¹⁰¹ Becker, Jansen, Roaring and Zveglic 2005; MEDA 2006b; Action for Enterprise 2006; Waltring 2006; USAID 2006d.

¹⁰² Action for Enterprise 2005; DAI n.d.

¹⁰³ Adhikary and McVay 2006; Tanburn 2006; GTZ 2006h.

¹⁰⁴ CLUSA/IDE/EMG 2005a; Aid to Artisans 2006 a-b; GTZ 2006h.

¹⁰⁵ Aid to Artisans 2006 a-b; Adhikary and McVay 2006.

Which Markets?

The big question in value chain development for the poor is: Can the poor compete in global markets? The response from practitioners is yes and no. Different target markets demand different competitiveness strategies. In high-value, global niche markets, SEs can compete based on authenticity, uniqueness, and/or social value added. In international commodity markets, price, quantity, and reliability are more important. National and local markets are more concerned with price, ease of access, and product relevance to local tastes. In 2006, the trend is toward a focus on larger, less demanding markets, sometimes including a strategy to help firms “graduate” to more sophisticated markets over time.

Gap:

Who is the competition in the global market?

- 1) *Neighboring developing countries: Are we supporting a zero-sum game in which developing countries compete against each other for limited global markets?*
- 2) *Developed economies: Are we helping global corporations outsource jobs in search of cheap labor?*
- 3) *China: Many developing countries face Chinese competition at home and abroad, and are at a loss for how to face this giant competitor.*

Building Systems for Developing Competitiveness Strategies

Most practitioners encourage the participation of value chain businesses in the development of a competitiveness strategy. Otherwise, the program risks imposing a business strategy that value chain businesses will not follow.¹⁰⁶ A systemic process calls for building the capacity of value chain businesses to develop joint competitiveness strategies so that, when the market shifts, they can respond. A few programs are developing the capacity of industry change drivers to take on this function.¹⁰⁷

Example 27: Building Capacity for Developing a Competitiveness Strategy

GTZ and GFA Consulting, Philippines

In 2003, the Small and Medium Enterprise Development and Sustainable Employment Program (SMEDSEP) was conceived to contribute to poverty reduction through private sector development and employment promotion in the Visayas region of the Philippines. Implemented by GTZ, GFA Consulting and the Philippine government and funded by BMZ, the program targets two sectors, selected based on analysis and consultation with national and local government: tourism and information technology. Each service sector contains several product or service grouping that are approached as value chains. A tourism sub-sector analysis identified several constraints including passive marketing. The program is working simultaneously to strengthen demand-driven marketing services and to facilitate the establishment of a cooperatively owned tourism marketing company on Negros Occidental. The program provided technical assistance to help the company develop a market position and strategy for the island. The plan outlines four specific tourism “products” and target markets – meetings/conferences/events, beach leisure and recreation, cultural and natural sightseeing, active tourism, and English language courses. The plan also suggests an elaboration of the selected brand, “Adventure Negros”, to develop a more specific positioning strategy for each market. The plan further identifies products that are ready to market, those that require improvement and how, and details a marketing strategy to attract the different sets of customers. Developing a common marketing strategy helped competing businesses, with a history of conflict, to work together. It also built the group’s capacity to develop on-going joint strategies.

For more information, contact Carisa Aleta at ca-gtz@mozcom.com or see <http://www.smedsep.ph/> and www.bdsknowledge.org

¹⁰⁶ Adhikary and McVay; KATALYST n.d; Albu and Griffith 2005; Action for Enterprise 2005; Waltring 2006; USAID 2006b.

¹⁰⁷ Becker, Jansen, Roaring and Zveglic 2005; Adhikary and McVay 2006; Idrovo and Boquiren 2006; Muller-Glodde and Lehman 2006.

5.4 Strengthening Inter-Firm Linkages

At the heart of value chain development is the effort to strengthen mutually beneficial linkages among firms so that they work together to take advantage of market opportunities. Most VCD initiatives work with a range of business types to strengthen both vertical linkages – among firms that buy from and sell to one another – and horizontal linkages – among firms that serve the same functions in the VC. Positive outcomes occur when there is strong market drive for linkages, strong investment from many businesses in the chain, and a market system in place to replicate improved models and practices.

5.4.1 Vertical Business Linkages

Vertical linkages are the links in the core value chain that bring inputs to producers and processors, and take products to market. Innovation is occurring in work with lead firms and with small-scale intermediaries. Models and strategies for these two areas of work are discussed below.

Working with Lead Firms

The first choice of many value chain programs is to work with lead firms in order to efficiently and sustainably reach larger numbers of SEs. The advantages of this strategy include an easy entry point, a guaranteed market or reliable supplier for SEs, leveraged technical expertise from the lead firm, and market connections. Disadvantages include the challenge of encouraging lead firms to work with weak SEs owned by the poor; the tendency of lead firms to seek exclusive producers and to resist replication and competition; the risk that skills SE producers learn may not be transferable to other market relationships; and potential SE vulnerability due to over-reliance on a single buyer or supplier.

Market Models:

Practitioners seek to take advantage of the pros and mitigate the risk of the cons, for example by using some of the strategies below:

- **Improving contracts:** to better reflect the risks and benefits to each party. Elements of effective contracts include: a) transparency in the real cost of inputs, technical advice, or services, and b) pricing deals that allow for fixed-price and quantity guarantees, with flexibility to sell surpluses on the open market.¹⁰⁸
- **Developing “Best Practices” and codes of conduct:** One project invited lead firms that contract small-scale farmers to a seminar to share challenges and best practices in contract farming. Attendees benefited from the exchange, and the program published the resulting best-practice guide to contracting small-scale farmers.¹⁰⁹ Another program facilitated the development of a sector-specific code of conduct for doing business.¹¹⁰
- **Developing SE training units within lead firms:** One program helped a lead firm develop a training unit to build the capacity of SE distributors of agro-inputs, so that the retailers could offer advice along with inputs.¹¹¹
- **Clustering lead firms:** to reach international markets and share strategies for procuring from SEs.¹¹²
- **Helping associations host buyer visits:**¹¹³ to link member lead firms with international markets.

Replication of Market Models

How did practitioners take these innovations to the wider market? Two core strategies were used:

- **Strengthening learning systems:** that transfer linkage strategies from firm to firm. In two cases, a lead firm trained other lead firms for a fee.¹¹⁴ In

¹⁰⁸ Millard 2006a; Kenya BDS; Rikli and Ryazanov n.d., HPC.

¹⁰⁹ KATALYST n.d.

¹¹⁰ van Bussel 2005.

¹¹¹ KATALYST n.d.

¹¹² Cluster Pulse 2006; ATA 2006 a-b; MEDA 2006d.

¹¹³ ATA 2006 a-b.

¹¹⁴ KATALYST n.d.; Emerging Markets Group 2006.

another, an SE processing association taught a new lead firm how to work with SE producers and processors.¹¹⁵

Strengthening the capacity of consultants and/or trade associations to conduct fee-based business linkage activities: Activities include helping individual firms find buyers, building their capacity to sell and deliver, organizing groups to jointly market products, hosting buyer visits, preparing and mentoring firms for trade show participation, and organizing trade shows.



Example 28: Building the Capacity of Clusters to Strengthen Business Linkages

Cluster Pulse, global

Cluster Pulse is an NGO affiliated with several consulting and training firms founded by a social entrepreneur starting in 2000. Cluster Pulse facilitates small consortia of exporters to help them reach specific global markets. The step-by-step process follows:

1. With donor funding, Cluster Pulse holds industry-specific exposure seminars on export markets, conducts individual diagnostics, and selects a handful of the most promising manufacturers, who are not exporting, to form a pilot consortia of exporters.
2. The consortia of manufacturers identify a facilitator and agree to hire the facilitator to lead the group. The facilitator is paid a commission on export sales brokered. The facilitator and some members joins the Global Network and participate in on-line training to learn how to facilitate a cluster and help it reach markets. Cluster Pulse facilitates visits to competing producers, for example in China, and to target market countries to meet with potential importers, establish links and make export sales.
3. Other exporters – often the ones who were not selected in the pilot – approach Cluster Pulse for assistance. They pay fees to the consulting firms for the same services to help them export.

Since 2000, Cluster Pulse and its affiliated consulting and training firms have worked in 6 sectors to support 63 export consortia or clusters, training some 11,460 exporters. In some clusters, the exporters purchase from SE producers by the thousands. For example, 16 carpet exporters in 3 consortia in Afghanistan procure from 21,000 weavers.

For more information, see www.ClusterPulse.org; www.exportfundas.com; www.globalnetworkindia.com; www.gninstitute.com; and www.iitfglobal.com

Sources: above websites; www.afghancarpetconsortia.com; Cluster Pulse 2006

¹¹⁵ Idrovo and Boquiren 2005.

Working with Informal Sector Intermediaries

When working with lead firms is not feasible, programs often turn to smaller, informal intermediaries – traders who buy SE products or provide SE inputs. The choice is often made reluctantly. It takes more intermediaries to reach target SEs. They generally have lower capacity to reach formal, regulated, higher-value markets. In addition, they are often viewed as being immoral, exploitative, and secretive. In fact, many programs have tried to cut them out of market systems.¹¹⁶ Others, however, have found that small-scale intermediaries can be effective partners. Small-scale intermediaries often play a pivotal role in markets. They know well the communities in which they trade, both geographically and culturally. They have established trust with SEs. They operate at low cost and relatively efficiently. They are often more willing and able to do business with the poor.¹¹⁷

Gap:

Targeting Trading, Retail and Service SEs

A large proportion of microenterprises operated by the poor, and especially by women, are in wholesale or retail trading or the service sector. While microfinance institutions successfully reach these microenterprises, value chain development has generally focused on producer SEs.

Recent research and a pilot program targeting retailers and their associations suggest that supporting physical market infrastructure and bulk purchasing, for example, might contribute to increased income for traders and better access to lower-cost products for poor consumers.¹¹⁸

While there is increased attention to small-scale intermediaries in VCD programs, retailers and service businesses have yet to benefit from most value chain approaches, despite their predominance in local economies.

Practitioners are beginning to share experience in working with informal intermediaries to strengthen value chain growth and increase pro-poor benefits.

A few innovations emerging from market models that engage intermediaries follow:

- **Small-scale lead firms:** An agri-business program identified wholesale vegetable traders and built their capacity to contract farmers rather than buying on the spot. The more transparent, information-laden, longer-term relationships resulted in the traders getting better quality, better timed, and a wider variety of fruits and vegetables, which helped expand their sales.¹¹⁹
- **Including traders in market models:** Several programs have incorporated traders into more formal business models involving lead firms or associations of SEs as main partners. For example, one program found that traders supplied compost in the form of cow dung to farmers. The program trained them to produce better quality compost using less scarce materials.¹²⁰

The biggest challenge in working with small-scale intermediaries, however, is in stimulating systems that replicate the market model. Some emerging approaches follow:

- **Include traders in BMOs:** Encouraging business associations to include traders, to incorporate traders into new market models, and to build traders' capacities to embed services to SE producers.¹²¹
- **Partnerships with MFIs:** One program in the fishing sector reached large numbers of small-scale fishing equipment suppliers through an MFI. The MFI developed a tailored lending product, and helped groups of borrowers to source bulk equipment at discounted prices.¹²²

¹¹⁶ Emerging Markets Group 2006; IDE Vietnam.

¹¹⁷ Action for Enterprise 2006b; MEDA; USAID 2006c; FAO n.d.

¹¹⁸ FAO n.d.; Miehlbradt and McVay 2005.

¹¹⁹ Tanburn and Kamuhanda, 2005; van Bussel 2005.

¹²⁰ KATALYST n.d.

¹²¹ KATALYST n.d.

¹²² Emerging Markets Group 2006.

- **Support Markets:** Developing support markets in equipment, inputs, finance, or training to strengthen intermediaries' value added in the chain.
- **Multi-level marketing:** Building the capacity of successful traders to recruit and train community traders. The community traders then help them to source from or sell to more SEs, or to take on a larger role in wholesaling SEs' products.



Example 29: Stimulating Market Systems that Rely on and Support Small-Scale, Informal Intermediaries

MEDA and ECDI, Pakistan

MEDA and ECDI are developing women-to-women trading networks to help rural, home-bound embroiderers improve their livelihoods. The program vision was to replace weak, traditional, family-based marketing practices with service-laden market relationships. The new relationships link to higher-value markets, and provide appropriate inputs, new designs, technical guidance, and ultimately increased volume and income. Since the market model existed only in nascent form, the program first attracted and built capacity of 185 sales agents. Now, the program is observing and strengthening market systems to support and perpetuate the business model. These include:

- Linkages with support markets: New women traders needed access to design services, but could not afford or draw the attention of sophisticated designers. The program helped them find “tracer” designers who operate in less formal markets and are more affordable, but nonetheless are more aware of market trends than traditional embroiderers and new traders. The program helps the “tracer” designers become aware of women sales agents' market potential and of recent product trends. The designers sell patterns to the sales agents.¹²³
- In order to expand their businesses, some sales agents are recruiting and training sales representatives at the village level, who sometimes source from formal or informal groups of women. The program began to build additional capacity for this multi-level marketing structure, incorporating increased adult education, knowledge transfer, training of trainers, and group organizing skills for lead sales agents.¹²⁴
- Building the capacity of industry change drivers: The embroidery program also supports a few women traders to launch larger, more formal buying houses who will play a stronger urban-rural linkage role, reading market signals, linking rural and urban wholesalers, and building capacity around effective trading models and in technical skill areas.¹²⁵ In this manner, they will take on some of the market facilitation functions as the project draws to an end.

In its first two years, the program has helped 7,000 women producers link to markets via 185 sales agents.

For more information, contact Helen Loftin at hloftin@meda.org see www.bdsknowledge.org and www.meda.org
Source: MEDA 2006a-d; MEDA 2005a

¹²³ MEDA 2006b,c,e.

¹²⁴ MEDA 2006b,c,e.

¹²⁵ MEDA 2006b,c,e.

5.4.2 Strengthening Horizontal Inter-Firm Linkages

Groups, cooperatives and associations of like firms—at the producer, trader, lead firm, or support market levels—can play a range of roles from information sharing to joint processing or marketing. Almost every VCD program works with producer groups, often linking them with lead firms and/or small-scale intermediaries.¹²⁶ At the higher levels, VCD programs more frequently strengthen trade associations. These frequently represent lead firms or larger firms, but are increasingly opening up to include a range of value chain businesses. Trade associations are mentioned throughout the Reader because they play a wide range of roles, including that of change driver for VCD. As mentioned in the vertical linkage section, lead firms sometimes form horizontal linkages to reach markets and share strategies for working with SEs. This section, however, focuses on innovations in facilitating and engaging SE producer groups.

Developing Models

There are two schools of thought around how to approach SE producer groups, depending on the entry point of the VCD program.

- Some agencies advocate producer group organizing as the main program entry point. This helps facilitate options for the poor, including which markets to target, the extent of upgrading, and whether and how to enter into contracts with lead firms.¹²⁷ Such groups are flexible to take on a range of activities and tasks. One challenge for this kind of program is helping particular groups of SEs find buyers.¹²⁸ Another challenge is focus. Some agencies report that the groups they organized are sometimes approached by other

agencies with interesting opportunities that, from the program's perspective, distract from the role the groups are playing in the target value chain.¹²⁹

- Other agencies enter the market by approaching buyers and helping them to organize groups for the sole purpose of supplying them with appropriate products. In this case, the lead firm directs the purpose and content of group activities to achieve maximum efficiency for the value chain.¹³⁰ The downside is that this strategy places power firmly in the hands of the lead firm.

Several programs have shared innovative practices that address these challenges:

- Facilitating groups with representation of a range of stakeholders, including buyers and sellers. An agri-business initiative established a working group for each lead food processor that includes farmers, technical experts, lenders, and owner-managers. These groups meet regularly to jointly plan the season, negotiate contracts, develop technical assistance plans, and troubleshoot any issues.¹³¹
- Seizing opportunities to demonstrate that tied relationships are not always in the best interest of the buyer. For example, when producers have a bumper crop, it can be helpful to have additional buyers or processors on hand to absorb the surplus if a contracted buyer cannot do so.¹³² Or, craft buyers may prefer their producers to have a range of buyers. This way, they can ensure that producers remain gainfully employed on a full-time basis, without having to bear the entire cost of this benefit.¹³³

¹²⁶ Waltring 2006.

¹²⁷ UNIDO 2005-2006; UNIDO-SDC 2006; Muller-Glodde and Lehmann 2006.

¹²⁸ Waltring, 2006.

¹²⁹ Action for Enterprise 2006; Mercy Corps 2006c.

¹³⁰ Emerging Markets Group 2006; Rikli and Ryazanov n.d.

¹³¹ Rikli and Ryazanov n.d.

¹³² Emerging Markets Group 2006.

¹³³ ATA 2006 a-b.

Replication in the Market

VCD practitioners often wonder who will organize producer groups for sustained outreach over time, after the program has ended. There are several responses emerging which demonstrate market-based mechanisms for group organizing:

- Lead firms can organize groups to incorporate them into their supply chains. Thus, group organizing is built into the lead firm business model that VCD programs and trade associations promote.¹³⁴
- Once SEs in an industry see the value of group formation, they can pay for an experienced consultant to do it for them.¹³⁵

Example 30: Vertical and Horizontal Linkages: Facilitation of Choice in Contract Farming

USAID Kenya BDS

The USAID Kenya BDS program, implemented by the Emerging Markets Group, works to increase growth and incomes among rural SEs through access to markets and access to business services to compete in those markets. In the range of market models the program has supported, it addresses challenges in both vertical and horizontal linkages and has found practical ways to offer SEs more autonomy and choice. At the same time, the program helps SEs access reliable, higher-value markets and needed services. Three examples follow:

- In the passion fruit value chain, the program facilitated contract farming arrangements between smallholder farmers and lead firms, including both exporters and processors. During one season, irregular climate resulted in a production boom among some farmers. This exceeded farmers' projections as well as the market requirements of the lead firm. With the lead firm unable to absorb the additional fruit, farmers faced the danger of wasting heavy surpluses of fruit. Kenya BDS and the local facilitator scrambled to find additional export channels, and identified another buyer/processor to purchase the excess fruit. Now, the market intermediary developed to commercially run this scheme can facilitate such linkages. This experience demonstrates the benefits of flexible market arrangements that provide producers with choices.
- In the avocado sector, Kenya BDS stimulated supply contract arrangements between a few lead firms and contract farmers. These arrangements included the provision of agrochemical services, such as grafting and pest management, on an embedded basis. As supply has become more promising, the emergence of additional exporters has intensified competition for good quality supply, and provided the farmers with a wider choice of end markets. In addition, growth in the value chain stimulated an increased supply of independent business service providers, who were assisted by the Kenya BDS program. This has provided farmers with a greater array of service providers through a number of service delivery arrangements, providing more leverage with buyers.
- In the fish sector, fishermen had been extorting sex from women fish traders in order to extend the women credit for purchasing fish. Kenya BDS contracted the Resource Mobilization Center to sensitize fisher-folk on the importance of savings. The center also worked with a local MFI to develop the "Market Day Loan", which provides credit for women fish processors. Women are now able to access funds through savings, or access cash through a loan, thus enabling them to escape from the sex-for-fish trap.



For more information, contact David Knopp at david@kenyabds.com or see www.kenyabds.com
Source: Emerging Markets Group 2006

¹³⁴ Action for Enterprise 2006; Mercy Corps 2006c; Action for Enterprise 2006b; Cluster Pulse 2006.

¹³⁵ Cluster Pulse 2006.

- Local government is also a potential group organizer, particularly in very under-served geographic areas where trade associations, lead firms and consultants lack motivation to penetrate.¹³⁶

Group organizing is unlikely to ever be a marketable, stand-alone service. However, when incorporated into value chain system development, it can be a critical component for driving sustainable, systemwide change over time.

5.5 Developing Firm-Level Upgrading Systems

In order to capitalize on market opportunities and realize a more competitive market position, value chain businesses usually need to upgrade – to improve processes or products, to take on additional value-added functions, or to shift to a different market channel to reach higher-value or higher-volume markets. Firms at all levels of the value chain may need to upgrade in order for SEs to reap maximum benefits. “Upgrading” of SEs is one critical way that benefits reach the poor; it enables SEs to offer higher value that potentially offers higher returns.

Upgrading is inherently risky, and practitioners are learning to customize their strategies to fit the risk tolerance, and reward drive, of target SEs. Some SEs are risk-takers and want to become more sophisticated, for example sons managing their fathers’ businesses. Others are risk averse, but time and labor constrained; this may include women with young children. They are willing to invest in change, if it means more efficient or more lucrative work. Programs are looking more carefully at the social, cultural, and economic lives of their target population. This helps them understand potential risks and rewards of upgrading strategies.

The role of VCD programs, then, is to investigate and offer upgrading strategies to VC businesses, and to mitigate attendant risks and amplify incentives.¹³⁷ This section highlights several innovations in upgrading processes. It then focuses on how VCD programs stimulate market systems for widespread replication of effective upgrading strategies.

5.5.1 Market and Business Models for Firm-Level Upgrading

Upgrading strategies are often categorized into process, product, function, and chain upgrading. It is sometimes recommended that value chains approach upgrading in this order, although in practice these processes are often overlapping. Programs are raising firms’ interest in upgrading by:

- Providing lead firms with information and business ideas.
- Exposing target firms to new buyers, more successful businesses or better functioning markets through field trips or trade shows.¹³⁸
- Conducting “diagnostics” on a group of target firms to compare their performance to international benchmarks and to the local industry average.¹³⁹

Many VCD programs also encourage firms to upgrade by mitigating the attendant risks, as illustrated by the following examples.

- Several agricultural development programs reduce farmer risk of adopting new techniques. They link farmers with contractors who specify new techniques, provide services to support their use, monitor implementation, and guarantee a market for crops.¹⁴⁰ In this situation, the lead firm buyer takes on more risk.
- A few programs customize their interventions to provide choices for different populations and groups, and offer a potential sequence for gradually increased upgrading.¹⁴¹

¹³⁶ Idrovo and Boquiren 2006; Muller-Glodde and Lehmann 2006.

¹³⁷ Action for Enterprise 2006b.

¹³⁸ KATALYST n.d.; Adhikary and McVay 2006; ATA 2006 a-b.

¹³⁹ Adhikary and McVay 2006.

¹⁴⁰ Emerging Markets Group 2006; Rikli and Ryazanov n.d.; KATALYST n.d.; CLUSA/IDE/EMG 2005a.

¹⁴¹ Muller-Glodde and Lehmann 2006; ATA 2006 a-b; Adhikary and McVay 2006; World Education 2005; DAI 2006.

The common approach of testing the market with a pilot strategy also minimizes risk for late adopters, who can first observe a proven model in the market.

Example 31: Customized Services Provide Options

GTZ, Sri Lanka

GTZ is utilizing the “Nucleus” approach to business development, working with chambers of commerce and other business organizations to stimulate groups of firms serving the same market to jointly assess and address problems. Problems can be addressed by individuals, by the group through joint action, by the chamber advocating on behalf of the group, or by external consultants that individuals or the group might hire. The strategy works to motivate clients to address specific problems with customized solutions, stimulates demand for business services, strengthens chambers of commerce by building their capacity to offer members a specific, value-added, customized service, and improves the BE by strengthening a channel for businesses to voice their concerns. Over a three year period, the Sri Lankan – German Economic Strategy Support Programme with the German contribution funded by the Federal Ministry of Economic Development and Cooperation, organized more than 70 Nuclei with some 1,400 members. An estimated 76% had procured business services to improve their businesses.

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Source: GTZ 2006e and Muller-Glodde and Lehmann 2006

5.5.2 Stimulating Market Replication of Upgrading Strategies: Strengthening Support Markets and Learning Systems

VCD programs this year have developed new ways of stimulating the market to replicate firm-level upgrading. The main strategies overlap: 1) Developing fee-based and embedded service markets, and 2) strengthening learning systems throughout the value chain.

Since the poor have low purchasing power and low risk tolerance, a consensus has emerged that embedded technical services, particularly those linked with guaranteed contracts, are the most appropriate, sustainable way for the poor to access services. However, lead firms often need to purchase external services in order to offer embedded services to SEs. For example:

- Lead firms procure services in order to build staff capacity to train SE suppliers and buyers.¹⁴²
- Lead firms hire contractors to deliver services, for example tree spraying or product design.¹⁴³

At the pilot level, these services can be delivered by the program, but when it comes to replication, a market-based system needs to be in place to support copycats. This is particularly the case when larger numbers of informal sector intermediaries are involved in the market model.

There are pros and cons for the poor and for market development in promoting embedded services, as illustrated in Figure 4.

A recent experience suggests that the use of embedded and fee-based services may change over time as markets mature. In the Kenya BDS avocado initiative, embedded services were crucial at the pilot stage. As the market system expanded, however, it drove the entrance of more fee-based service providers at all levels of the chain. In more advanced geographic areas, farmers began to hire their own technical services and to opt out of embedded services provided by buyers, getting

¹⁴² Emerging Markets Group 2006; KATALYST n.d.; ATA 2006 a-b.

¹⁴³ Emerging Markets Group 2006; ATA 2006 a-b; MEDA 2006b,c,e.

Figure 4: Embedded vs. Stand-Alone Services for the Poor¹⁴⁹

	Benefits	Risks
Embedded	■ Enables lead firms to produce per market specification ■ Overcomes financing constraints among MSEs ■ Useful when support market is immature or non-existent	■ Heavy investment may over-expose lead firm ■ May inhibit development of stand-alone services ■ Potential to “over-service” leading to market distortions
Stand-alone	■ Increased competition leads to lower prices and improved service delivery ■ Maximizes outreach ■ Levels power relationships amongst value chain businesses	■ Lead firm has limitations on quality and standardization ■ Financing constraints may inhibit service delivery ■ Difficult to kick-start in an immature market

better deals on the open market.¹⁴⁴ Three lessons from this experience are:¹⁴⁵

- A combination of fee-based and embedded service provision is often crucial in creating a dynamic, competitive, pro-poor market.
- Growth in the core value chain can stimulate growth in service markets, which can be instrumental in replicating market models across the value chain.
- It is often difficult to predict ahead of time exactly what combination will take off in the market.

One proactive way to stimulate fee-based service markets is to train and provide technology to consultants, trainers, and technology suppliers in those markets. For example:

- Some programs are building the capacity of technical institutes or universities to train support service providers. Training can be in the technical skills that value chain businesses require, in the business models for marketing and delivering the skills, and in the adult education methods for effective knowledge transfer.¹⁴⁶
- Other programs are building the capacity of less formal, less experienced technical consultants by supporting mentoring arrangements.¹⁴⁷
- A third strategy is to develop tools – design patterns, standardized jigs and fixtures, ITC packages, or a package of agro-inputs – through which high-level expertise can be transferred easily to SEs.¹⁴⁸

These strategies link high-level expertise with markets and help repackage it for better absorption by SEs. One challenge is engaging the higher-level experts in the initiative.

¹⁴⁴ Emerging Markets Group 2006.

¹⁴⁵ Emerging Markets Group 2006.

¹⁴⁶ Conservation International 2006; Adhikary and McVay 2006.

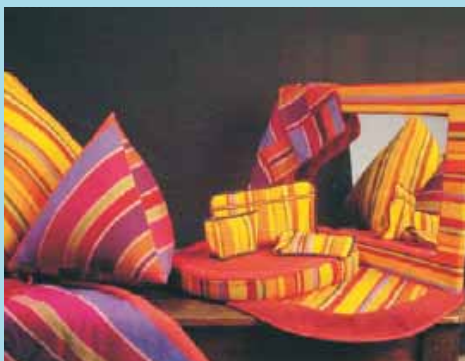
¹⁴⁷ KATALYST n.d.

¹⁴⁸ MEDA 2006b,c,e; Adhikary and McVay 2006.

¹⁴⁹ Knopf 2005.

Example 32: Channeling High-Quality Expertise to SEs, via SE Service Providers

Aid to Artisans and AGEXPRONT, Guatemala



The USAID-funded Guatemala Craft Sector Export Initiative (GCSEI), implemented by Aid to Artisans and AGEXPRONT in Guatemala, linked exporters with markets and stimulated the market for local design services. One challenge in the program was the disinterest of experienced Guatemalan artists and product designers in working with “craft” producers. Instead, the program engaged students and recent graduates from the design school, and linked them with international designers and exporters. The international designers worked with exporters and designers on product designs, and the designers worked with producers, communicating designs, guiding sample making, and

eventually supporting quality production. The program originally cost-shared these design services; now, exporters have paid for the services of the Guatemalan designers on a regular basis. Once there was some momentum in the market for design services, the program organized a “design congress” to engage more businesses in the market model. This time, sophisticated local designers were more interested due to the opportunity to be exposed to international expertise themselves. The congress shared information about market trends, and then facilitated partnerships among designers, exporters and producers to develop new product collections and designs.

To further prepare the next group of graduates from the design school, AGEXPRONT is now offering a course on the craft sector and marketing. Meanwhile, to further enrich the pool of designers in Guatemala and globally, a group of design students from the Rhode Island School of Design in the US are engaging in “service learning” with exporter-linked designers and producer groups. AGEXPRONT, the association of non-traditional exporters with a craft development unit, is leading these and other sector development initiatives to strengthen the craft sector, and has gained additional capacity to do so through GCSEI.



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Source: Aid to Artisans 2006

5.6 Value Chain Support Markets

Strengthening support markets is a key strategy for stimulating value chain systems to expand, incorporating new entrants into more lucrative market relationships, building value chain responsiveness to market shifts, and supporting ongoing learning and innovation. Support markets and value chains can develop synergy, so that

growth and innovation in one market stimulates growth and innovation in the other. Although embedded services are a critical way for the poor to gain access, fee-based services may also play a role in expanding choices for the poor. Their central role is why support markets are featured throughout this chapter. In addition, practitioners have recently engaged in further innovations in support market development. These are presented in more detail in the next chapter on “foundation” markets.

6. Foundation Markets: The Building Blocks for Economic Growth and Poverty Alleviation

A new area of PSD has emerged from work on cross-sector BDS markets, value chains, and social services for the poor: developing foundation markets. This chapter discusses what foundation markets are and why agencies are developing them. It then explores innovation in the various foundation markets that development agencies are targeting together with strategies for developing them. The chapter concludes with a more in-depth look at a particular area of innovation in foundation markets: value chain finance.

6.1 Foundation Market Development – The Basics

Foundation markets deliver products and services that underpin the development of, and participation of the poor in, a number of other markets and/or the economy as a whole. They include education, health care, infrastructure services, workforce development, selected business services, input and technology supply, and financial services.

6.1.1 Types of Foundation Markets

Foundation markets may be loosely categorized as follows:

■ **Consumer services:** such as health care and education, access to which improve quality of life and provide avenues out of poverty.¹⁵⁰ Some services – such as energy and telecommunications – are also important to businesses. Traditionally governments have provided these services free or for standardized,

often subsidized, fees. However, the gap in public provision is wide, and the private sector often fills it. In some cases, this is enabled by technological innovation that makes smaller-scale investment and delivery possible. Strengthening private markets for pro-poor consumer services has the potential to increase both access and quality for poor people and SEs.¹⁵¹

■ **Feeder value chains:** supply core components and technologies for other sectors in which the poor are producers, traders or workers. They are broad product sectors, such as light engineering or agro-tools. Practitioners develop these value chains not only to benefit enterprises within the value chains themselves, but also to benefit the enterprises and poor people in the value chains they supply.¹⁵²

■ **Feeder services:** improve the performance of other sectors in which the poor are producers, traders, or workers. They include agricultural extension services, veterinary services, product certification services, and product design. Developing markets for these services can help boost productivity or sales in several related value chains or a broad sector – for example agriculture, animal husbandry, crafts, or small-scale manufacturing.¹⁵³

■ **Investment climate services:** Effective markets for business services, much like regulatory reform, contribute to competitiveness in many sectors and promote an overall positive investment climate, particularly for SEs. A wide range of enterprises may need these services; existing services are often not available or not appropriate for SEs.¹⁵⁴

¹⁵⁰ Miehlabrad and McVay 2005, *The 2005 Reader: From BDS to Making Markets Work for the Poor*, includes a chapter on these markets. See pages 87-92. Available at www.bdsknowledge.org.

¹⁵¹ Tanburn and Kamhanda 2005; Miehlabrad and McVay 2005; MEDA 2006a; Acumen Fund 2005; AED 2006; ComMark Trust and Centre for Development and Enterprise 2006.

¹⁵² KATALYST n.d; Adhikary and McVay 2006; CLUSA/IDE/EMG 2006a.

¹⁵³ GTZ 2006c; Abdullayev, Mustafayeva and Brown 2005; Action for Enterprise 2006a; Miehlabrad and McVay 2005.

¹⁵⁴ Tanburn and Kamhanda 2005; Kibenge 2005; Muzira 2005; KATALYST 2006; Adhikary and McVay 2006.

Figure 5: Examples of Foundation Markets

Consumer Services	Feeder Value Chains	Feeder Services	Investment Climate Services
- Health care - Education - Energy - Water - Sanitation - Housing - Telecommunications - Public transport - Vocational training	- Agricultural inputs - Agro-tools - Irrigation - Manufacturing equipment and spare parts (light engineering)	- Agricultural extension - Certification - Veterinary services - Product design - Trade show management - Business linkage services	- Media - Marketing - Management training - ICTs - Software - Accounting & financial consultancy - Financial services

Figure 5 gives examples of foundation markets in each category. These categories are fluid, but help convey the different ways in which developing foundation markets leverages pro-poor benefits.

6.1.2 Why are Agencies Developing Foundation Markets?

Healthy foundation markets are critical to pro-poor economic growth, as demonstrated by:

- The significance of the service economy to consumers, businesses, and overall economic growth in developed countries.¹⁵⁵
- Cost-effective programs that develop a foundation market that addresses similar constraints in multiple value chains.¹⁵⁶
- The gains from stimulating synergy among different sectors, so that innovation and growth in each stimulates growth in others.
- The stimulation of systemic growth by strengthening markets that support value chain expansion, productivity, innovation, learning, and information sharing.

- The economic gains that SEs and low-income employees in the foundation markets themselves enjoy.¹⁵⁷

The term “foundation market” refers to the fundamental role these markets play in supporting broader pro-poor economic growth.

6.2 Developing Foundation Markets

As with other markets, practitioners must learn how to ensure that foundation markets continue to grow, change, and increasingly benefit the poor over time. But this stage is not yet a concern of many foundation market development efforts. The work in some foundation markets, such as consumer services, is still focused on piloting new models. In contrast, some work in other foundation markets, such as agricultural inputs, is focusing both on pilots and on stimulating market systems.

Many of the same strategies used to develop value chains and BDS markets are now being applied to foundation markets.

¹⁵⁵ Wölfl 2005; OECD 2005.

¹⁵⁶ CLUSA/IDE/EMG 2006a; Shauket, Ahmed and Condor 2005.

¹⁵⁷ KATALYST n.d.; Adhikary and McVay 2006; Miehlbradt and McVay 2005; Tanburn and Kamhanda 2005.

Example 33: Targeting Light Engineering as an Input to other Industries

International Finance Corporation – SEDF, Bangladesh



SEDF in Bangladesh is targeting the light engineering sector (LES) because these firms supply machinery, equipment, and spare parts to a wide range of small-scale industries and businesses in key economic sectors. Thus, LES improvements can increase the competitiveness of small-scale manufacturing and of some critical service sectors (such as vehicle repair). SEDF's focus in LES has been to improve product quality and manufacturing processes and to reduce costs of inputs. To date, SEDF has piloted new business models by assisting 27 foundries, steel-rolling mills, and machine shops through four providers – an engineering consortium,

two institutions and one association. 218 individuals have been trained; results from the pilots are encouraging. For example, foundries implemented no-cost or low-cost process improvements that reduced rejection rates by 3.4%, increased efficiency of input use by 8.0%, and increased yields by 9.8%, saving \$ 400,000.¹⁵⁸

Building on these pilot initiatives, SEDF launched sector-wide replication initiatives, including:

- *Establishment of the Consortium for Industrial Engineering Service (CIES):* This group of five engineering consultants replicates process improvements on a commercial basis. To date, CIES has sold services to 22 firms – foundries, steel re-rolling mills, and machine shops.
- *Trade association development:* SEDF has partnered with a leading LES trade association to provide training to workers of member firms. SEDF is co-financing the development of course materials and training of trainers, while members pay for the actual training. Workers from 27 firms have been trained, and the program is monitoring the results.¹⁵⁹



An intangible outcome has been a slow shift in the culture and attitude of the LES sector. Once completely closed to the potential for improvement, it now expresses a more open attitude to try new business practices.

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Source: Adhikary and McVay 2006

¹⁵⁸ Calculations by the author based on data from SEDF n.d.e.

¹⁵⁹ Adhikary, 2005-2006.

This section profiles three particular areas of innovation in foundation market development: bridging information gaps between consumers and suppliers, technical assistance to develop foundation products and services, and developing support markets for foundation markets. As consumer services were profiled in the 2005 Reader, less emphasis has been given them here.

6.2.1 Bridging the Gaps between Consumers and Suppliers

In foundation markets, consumers are either poor people or domestic businesses, often SEs. Contrary to expectations, research and experience is showing that the poor and SEs often have significant demand for foundation products and services, albeit poorly understood by potential suppliers. In addition, poor people and domestic SEs often have little information on what products and services are available, so it is difficult to articulate demand and make informed choices.

To address this gap, practitioners increase the flow of information between consumers and suppliers in foundation markets. Better information flow helps suppliers determine how to meet demand and stimulate effective demand by raising consumers' awareness of available products and services. Generally, programs begin by directly facilitating the flow of information between consumers and suppliers. Some programs have then devised more sustainable mechanisms for consumer feedback to suppliers, using strategies such as:¹⁶⁰

- Introducing suppliers of foundation products and services to industry leaders or associations in key value chains;
- Building the capacity of associations to conduct or help their members attend trade fairs. These show off foundation products or services and promote consumer-supplier interaction;
- Supporting the development of consumer research companies; and
- Developing foundation market associations' capacity to jointly market products or services.

Gap:

Consumer Organizations

In developed countries, consumer organizations often play an important role in educating consumers about available products and services, informing suppliers about consumer demand and promoting quality. Consumer organizations might fulfill a similar role in developing countries, particularly in pro-poor consumer services. However, it appears that the development community has not yet given much thought to the feasibility and possible methodologies of developing consumer organizations.

6.2.2 Developing Foundation Products and Services

Practitioners and suppliers have found that markets for many foundation products and services are highly segmented by sector. There is an increasing focus on developing sector specific products and services, both in programs developing foundation markets to support specific value chains and in more general foundation market development programs, including finance programs.¹⁶¹

While strategies for product development have not changed significantly, the savvy with which practitioners and private sector suppliers are cooperating to develop useful products for specific value chains has improved. A taste of the new products developed in the last year as pilot models follows:

- Software developers in Bangladesh now offer customized "Enterprise Resource Planning" software to the RMG industry.¹⁶²
- Private companies in Vietnam now provide branding and distribution services to the litchi

¹⁶⁰ Adhikary and McVay 2006; KATALYST 2006; Tanburn and Kamhanda 2005.

¹⁶¹ Adhikary and McVay 2006; KATALYST 2006; GTZ 2006c; Quynh n.d.; Idrovo and Boquiren 2005b.

¹⁶² Adhikary and McVay 2006.

Example 34: Developing Sector-Specific Foundation Products by Bridging Gaps between Consumers and Suppliers

KATALYST, Bangladesh

KATALYST, funded by DFID, SDC, Sida, and CIDA, and implemented by Swisscontact and GTZ International Services, targets the software sector as one of 17 focus sectors. Although there are more than 300 local software companies in Bangladesh, most focusing on the export market, few local businesses utilize software. In September 2004, KATALYST conducted a study on the software service needs in selected domestic sectors. It found that SEs are very receptive to software solutions that can effectively simplify their everyday business processes. However, software service providers did not think that local SEs were a viable market segment, and software packages tailored to local SEs were not available.

When KATALYST made the findings of the study available to service providers, one of them, Digital Equality Network (DEN), quickly developed customized software for small traders. The software was an immediate hit; the company opened an office near the trade cluster to cater to its growing local clientele. KATALYST spread this success story to other software providers, and conducted another comprehensive study on SE software needs and preferences in September 2005. The results of the study were disseminated to software providers through their association, BASIS. Many software companies, encouraged by the example of DEN, are now developing appropriate products for SEs in selected domestic sectors. The program has reached 3,000 SEs to date.

For more information, contact Manish Pandey at Manish.Pandey@swisscontact-bd.org or see www.katalystbd.com
Source: KATALYST 2006

sector to help them penetrate the domestic market.¹⁶³

■ An eye hospital in India now provides telemedicine services to other hospitals in the area, using unique software developed with donor support.¹⁶⁴

■ Rural radio stations in Zambia now provide content specifically suited to small farmers.¹⁶⁵

■ Consultants in Bangladesh now provide training and linkage services to small agricultural enterprises seeking to supply supermarket chains.¹⁶⁶

■ Training organizations in the Philippines now offer courses tailored to the tourism and IT sectors.¹⁶⁷

Building the capacity of suppliers to identify and develop products for one value chain can stimulate them to do the same for other value chains on their own.¹⁶⁸ A focus on specific value chains has also enabled practitioners to keep their ambitions within foundation markets manageable and their efforts focused.

6.2.3 Developing Support Markets for Foundation Markets

One program's support market is another program's core market. (See Figure 6.) To develop support markets sustainably often requires the development of support markets for those support markets.

¹⁶³ Quynh n.d.

¹⁶⁴ Acumen Fund 2005.

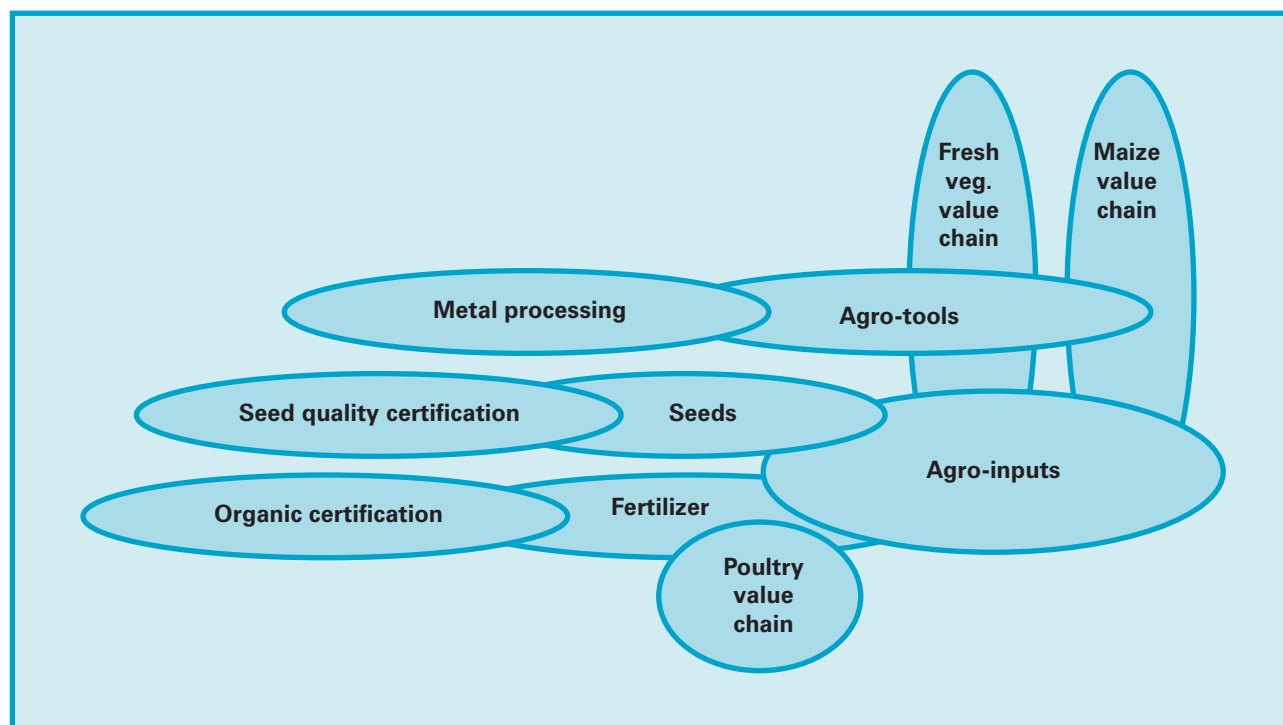
¹⁶⁵ BDS Zambia 2006.

¹⁶⁶ Adhikary and McVay 2006.

¹⁶⁷ Becker, Jansen, Roaring and Zveglic 2005.

¹⁶⁸ Adhikary and McVay 2006; Emerging Markets Group 2006.

Figure 6: Range of Some Inter-Connected Markets Targeted by Programs in Bangladesh



Practitioners are realizing that the sustainable development of foundation or other support markets may require building a variety of interconnected markets. For each new market targeted, a systemic approach calls for going through the stages of analytical research and/or dialogue, piloting new models, stimulating market systems, and exit, although the steps may be shorter in duration and simpler because markets are smaller and more focused.

Innovation in developing support markets for foundation markets is concentrated on new support products and services as well as better delivery of those products and services. Some examples follow:

- A mortgage guarantee fund to support the commercial provision of low-cost housing in Pakistan.¹⁶⁹

- MFIs or other financial institutions providing specific finance products to expand poor consumers' abilities to purchase private energy products and services.¹⁷⁰
- Financial or insurance companies offering insurance to increase access to private health care in various countries.¹⁷¹
- Private companies offering vehicle-leasing services to support the public transport market in Uganda.¹⁷²
- Private firms selling equipment, technology, and printing inputs for advertising firms in Bangladesh.¹⁷³
- Private veterinary medical suppliers offering credit incentives to veterinarians and training them on new product applications.¹⁷⁴

¹⁶⁹ Acumen Fund 2005.

¹⁷⁰ SEEP Network 2006.

¹⁷¹ Tanburn and Kamhanda 2005; Acumen Fund 2005.

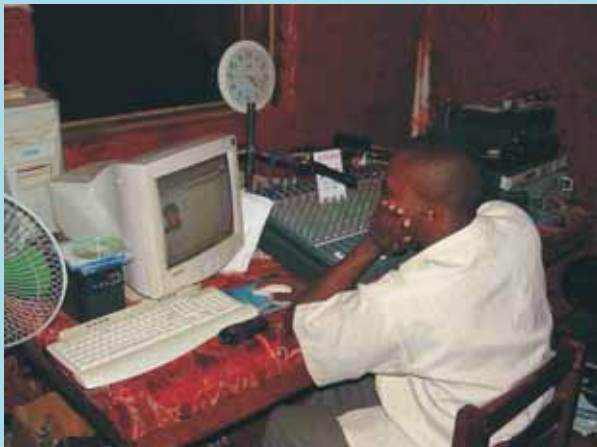
¹⁷² Tanburn and Kamhanda 2005.

¹⁷³ KATALYST 2006.

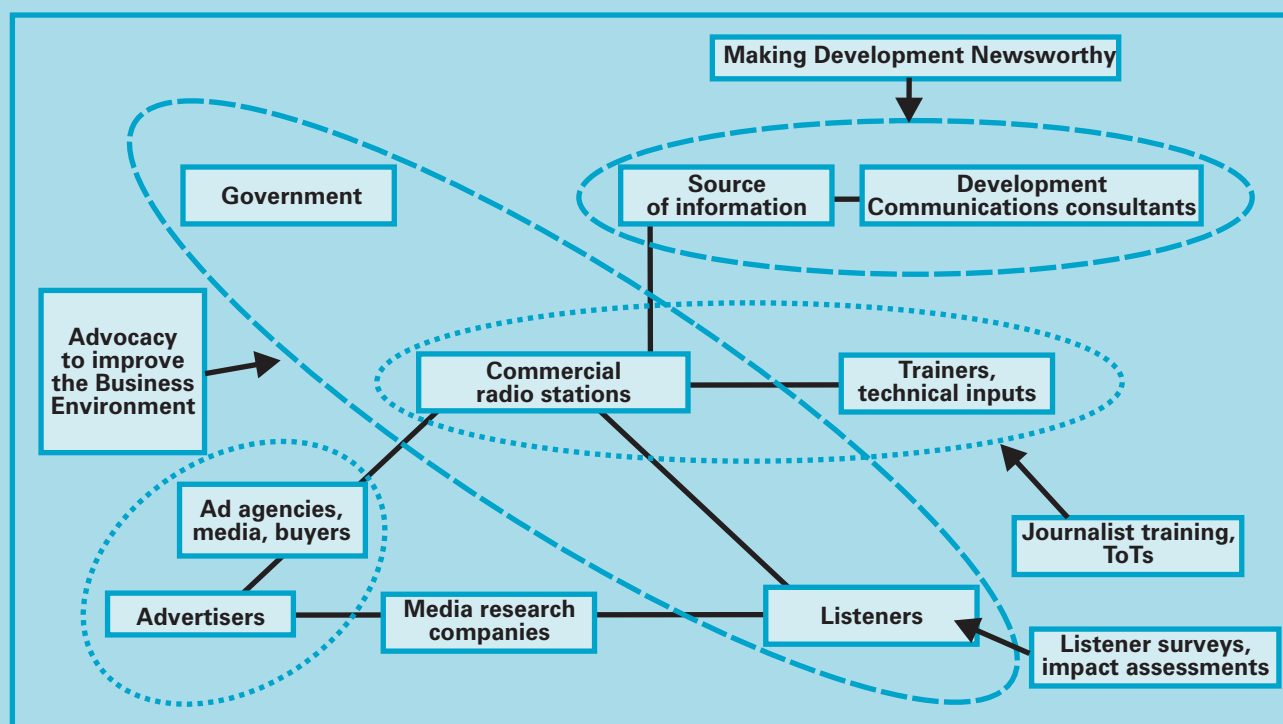
¹⁷⁴ Action for Enterprise 2006a.

Example 35: Developing Foundation Market Systems

ILO, Uganda



In 6 years, the ILO Small Enterprise Media in Africa (SEMA) project, funded by Sida, has resulted in 34 commercial radio stations profitably airing SE-focused radio programming. Research indicates that 63% of Uganda's population is tuning in, or approximately 17.64 million people. The SEMA project's success rests in part on focusing not only on radio itself, but also on the support services and functions that make up the radio market system. The diagram below shows this system, and where the SEMA project has intervened to improve its functioning.



For more information, contact Owen Kibenge at okibenge@fit-sema.net or see www.bdsknowledge.org
 Sources: Tanburn and Kamhanda 2005; ILO FIT SEMA 2006

6.3 Financing the Value Chain: Financial Services that Strengthen VC Competitiveness

In the private sector development field, finance is perhaps the original foundation market. Interest in value chain finance has emerged in the financial services community, along with attention to developing financial systems and interest in penetrating new markets, especially rural and agricultural markets.¹⁷⁵ Value chain developers have paid more attention as the possibility of practical solutions has emerged. Value chain finance refers to a variety of financial services, either:

- provided by businesses within value chains to one another, or
- provided by financial institutions to value chain businesses, but designed for a particular value chain, and often in partnership with value chain businesses.¹⁷⁶

6.3.1 Why Value Chain Finance?

Value chain finance is an integral part of many value chains.¹⁷⁷ For example, an FAO survey in Asia found that 80 percent of rice mills and 50 percent of all fruit and vegetable traders provide credit to farmers.¹⁷⁸ Promoting value chain finance builds on existing systems within value chains. It has the potential to lower transaction costs for reaching small producers, and enable financial institutions and value chain businesses to manage risk.¹⁷⁹ In addition, systems for delivering finance through value chains are often linked with systems for delivering other needed products and services that increase productivity, raise quality, or enable small-scale producers to reach higher-value markets.¹⁸⁰ At the same time, many value chains lack sufficient finance, and loan terms can be exploitative

Example 36: Value Chain Analysis with a Financial Services 'Lens'

EDA Rural Systems, Inc., India

EDA Rural Systems, Inc. is part of the SEEP Practitioner Learning Program in Strategic Alliances, funded by USAID. Under the program, EDA aims to improve the flow of financial services from banks and financial institutions to SEs, including small-scale farmers in the litchi and honey sectors in the Muzaffarpur region. EDA started their project with value chain analysis using a financial services "lens". Within this research, EDA's questions to value chain businesses focused not only on the structure, relationships, opportunities, and constraints in the value chain, but also on financial flows and value chain businesses' specific financial-services needs. EDA used the resulting information in discussions with banks to encourage and help them design appropriate loan products for litchi growers and beekeepers. EDA also used the information to design interventions to expand existing mechanisms within the value chain that provide financial services to litchi growers.



For more information, contact Ashok Kumar at ashokkumar@edarural.com or see www.edarural.com and www.seepnetwork.org (PLP)

Sources: SEEP Network 2006a; EDA Rural Systems 2006b

¹⁷⁵ See the SEEP Network Practitioner Learning Program on Strategic Linkages at www.seepnetwork.org (PLP), SDC work on rural finance at www.sdc-ruraldevelopment.ch, and USAID's Rural and Agricultural Finance Working Group at www.microlinks.org; Christen and Pearce 2005.

¹⁷⁶ SEEP Network 2005.

¹⁷⁷ SEEP Network 2005; USAID 2005e.

¹⁷⁸ SEEP Network 2005.

¹⁷⁹ SEEP Network 2005.

¹⁸⁰ USAID 2005e; Christen and Pearce 2005.

for poor people. Furthermore, many chains do not incorporate finance, due to lack of trust and strong financing mechanisms. The role of development organizations is to strengthen the availability and transparency of finance through the value chain.

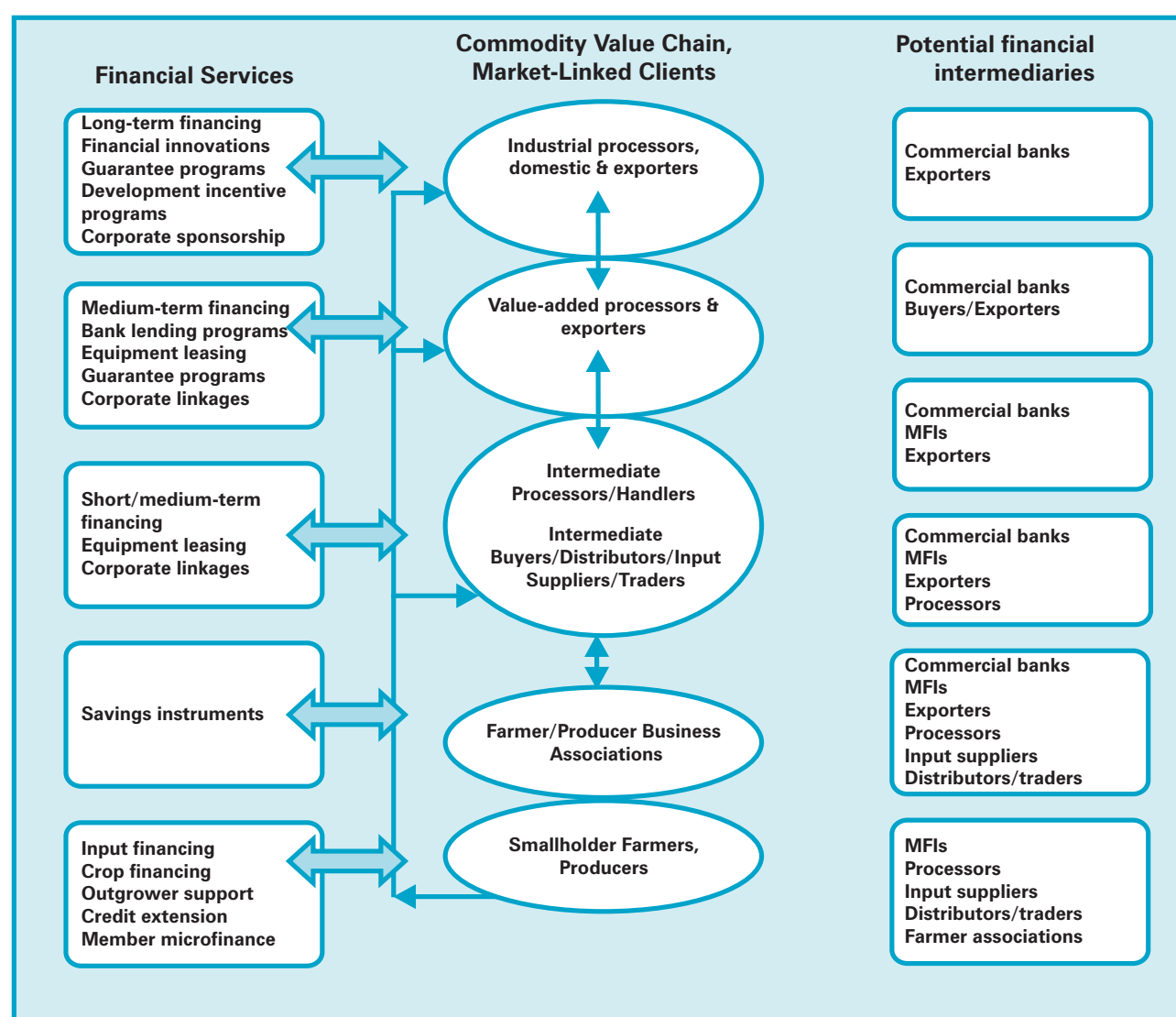
6.3.2 Strategies for Promoting Value Chain Finance

A diverse array of strategies are emerging to promote value chain finance, often in unison with other strategies to develop value chains.

Synergy in value chain analysis

Practitioners are finding that it is possible to integrate a “financial lens” into value chain analysis, examining the flow of financial services, identifying where additional finance is needed and determining which market structures might be the most suitable for increasing enterprises’ access to finance.¹⁸¹ Figure 7¹⁸² shows the variety of financial products and providers that might be found within a value chain.

Figure 7: Financial Services Along a Value Chain



¹⁸¹ SEEP Network 2005; SEEP Network 2006b; Jansen and Fries 2005; Kumar 2006; USAID 2005e.

¹⁸² CLUSA/IDE/EMG 2005a.

Example 37: Contract Farming Evolves to Commercial Finance

USAID Kenya BDS



In the avocado sector, the USAID Kenya BDS program, implemented by Emerging Markets Group, initially facilitated small-scale farmers' access to agricultural services such as picking, grading, pruning, and the application of agrochemicals through embedded service arrangements with lead firms. Specifically, each exporter contracted various service providers, tracked each farmer's use of the services, and deducted a fee for the services prior to paying the farmers. The approach had a significant impact in raising both awareness and uptake of the services, as well as stimulating the emergence of stand-alone providers. However, regularly tracking deductions was administratively and financially burdensome for the lead firm.

As the program expands, Kenya BDS is working with commercial banks to facilitate access to these services through value-chain financing arrangements. For example, Kenya BDS contracted Ideal Business Link to implement a program that helps farmers access agrochemical spray services on credit through Equity Bank. Farmers, contracted by a lead firm to produce avocados, open bank accounts and apply for loans for pest and disease control services at the beginning of the season. Each time certified providers spray the farm, the two parties document the service, the bank pays the service provider, and the farmer accrues debt. After each sale to the exporter is made, the lead firm pays the bank, which deducts the loan amount plus interest before paying the farmer. The program not only encourages formal banking among smallholder farmers, but also allows the lead firm to pay through the banks; this reduces cash payments and risk of theft. The agrochemical spray service providers are also extended credit for their equipment as well as agrochemicals.

Kenya BDS is also supporting savings mobilization as well as the development of beach banks for small-scale fisher-folk in Western Kenya. Over a two-year period, 11 beach banks have been established and \$694,000 has been mobilized. Collaborating financial institutions are now offering financial products geared to fisher-folk, such as market day loans and even micro-leasing of fishing gear, that are linked to bulk procurement strategies from high quality suppliers.

For more information, contact David Knopp at david@kenyabds.com or see www.kenyabds.com

Source: Emerging Markets Group 2006

Promoting Finance within the Value Chain

Some of the most common structures for value chain finance are:

■ **Trader Credit:** usually short-term loans between producers and either input suppliers or buyers.¹⁸³

■ **Contract Farming:** in which a wholesaler, retailer or intermediary contracts with a farmer for the production of a specific crop. Generally the buyer provides credit (often in the form of inputs), information, and technical advice and oversight. When the crop is harvested, the buyer purchases it at a pre-agreed price and deducts the principal and interest of credit provided.¹⁸⁴

¹⁸³ Christen and Pearce 2005; Jansen and Fries 2005; USAID 2005e.

¹⁸⁴ Christen and Pearce 2005; Jansen and Fries 2005.

Example 38: Promoting Leasing in Agriculture

Armenia Small and Medium Enterprise Project

"The Armenia Small and Medium Enterprise (ASME) project [funded by USAID and implemented by Development Alternatives, Inc.] provided technical assistance for the creation and start-up of the first (and only) privately financed leasing company in Armenia. ACBA Leasing was financed with \$4 million (\$1 million in equity and \$3 million in loans) from the IFC, Agricultural Cooperative Bank of Armenia, Credit Agricole of France, and the Lebanon Leasing Company. The enterprise also received a \$1.2 million grant from USAID through ASME. Leasing activity was initiated in late 2003 and volume is growing rapidly. [As of June 2006, the program had generated 230 leases totaling over \$5.5 million for equipment from 12 different countries to Armenian SMEs.] Leased equipment includes agriculture machinery and agro-processing equipment, as well as nonagricultural items. The increased demand for equipment has in turn stimulated local investment, for example in a new tractor assembly and implement manufacturing company."

Source: Steen, Magnani and Goldmark 2005

- **Leasing:** a form of fixed-asset financing. In agriculture, vehicle leasing is the most common. However, all types of equipment, as well as real estate improvements such as cold storage facilities, can be leased.¹⁸⁵

The limitations to finance within value chains include the short-term nature of most credit and the concentration of power in the buyer/lender business. In addition to limiting benefits to producers, this may make it difficult for producers to diversify or switch crops. Transactions are often not transparent, and embedded costs may be excessive.¹⁸⁶ Practitioners are addressing these limitations by promoting transparent contracts and relationships in value chains.¹⁸⁷ Increased transparency is helping to re-invigorate systems that had previously broken down due to lack of trust.

Partnerships among lead firms in VCs and financial institutions

Partnerships among lead firms in VCs and financial institutions offer the potential for cost-effectively expanding access to credit, particularly in rural areas and in agriculture. Lead firms – buyers and suppliers – know and interact regularly with their trading partners. Therefore, they can efficiently and effectively screen clients and disburse and collect loans. Lead firms also know production cycles, markets, and prices; they can offer valuable advice on how to structure financing around specific products. Financial institutions have the expertise, systems, and technology needed to provide a range of financial products efficiently and effectively.¹⁸⁸

Two examples of partnerships between VC businesses and financial institutions are:

- **Contract farming**, in which financial institutions provide loans to value chain businesses and share risks within contracts between buyers and farmers.¹⁸⁹
- **Warehouse receipts**, in which loans to farmers from banks are backed by receipts issued by safe, secure warehouses.¹⁹⁰

¹⁸⁵ Steen, Magnani and Goldmark 2005.

¹⁸⁶ Steen, Magnani and Goldmark 2005.

¹⁸⁷ World Education 2005.

¹⁸⁸ Christen and Pearce 2005; Jansen and Fries 2005; SEEP Network 2005.

¹⁸⁹ Christen and Pearce 2005; Jansen and Fries 2005.

¹⁹⁰ Jansen and Fries 2005; USAID 2005e.

Example 39: Partnership between a Finance Company and Storage Providers

ACCION / Financiera El Comercio, Paraguay

Financiera El Comercio is a finance company started in 1998. It serves almost 27,000 clients, 67% in rural areas, with a range of financial products including microfinance. Under the SEEP Practitioner Learning Program in Strategic Alliances, funded by USAID, ACCION is helping El Comercio replicate its successful soya-alliance model. In this model, El Comercio facilitates finance to soya bean storage providers (silos) who in turn provide agricultural financing to small soy farmers. The system for disbursing loans and collecting payments builds on existing value chain relationships among input providers, farmers, silos, and exporters. The partnership has enabled El Comercio to reduce the cost of crop supervision, loan recovery, and credit supervision, and to share loan risks with the storage providers. To date, El Comercio has 12 strategic alliances in soya beans reaching 239 small soybean farmers. El Comercio is replicating this model in sesame, tobacco, and other crops to help improve access to agricultural finance for farmers.

For more information, contact Bettina Wittlinger, ACCION at bwittlinger@terra.com.br, Silvia Mendez, El Comercio at silviamendez@elcomercio.com.py, Lillian Diaz Villeda, SEEP PLP Learning Facilitator at lillandiaz@gmail.com, or see www.seepnetwork.org (PLP)

Sources: SEEP Network 2006b; Mori 2006



Experience in these partnerships stresses the importance of: specifying the benefits for each partner, and clarifying the roles and responsibilities of each party, the mechanisms for enforcing these commitments, and the mechanisms for sharing risks and rewards.¹⁹¹

Partnerships between membership-based organizations and financial institutions

Financial institutions can significantly lower transaction costs when they work through BMOs, particularly if the BMO can help administer loans effectively.¹⁹² A number of programs working with enterprises in clusters or BMOs are linking BMOs with financial institutions.¹⁹³

Partnerships between financial institutions and value chain developers

Value chain developers are turning to MFIs, banks, and other financial institutions to provide appropriate and tailored financial products to enterprises. Value chain developers usually provide both funds and technical assistance to financial institutions to develop and expand appropriate financial products for targeted value chains.¹⁹⁴

¹⁹¹ SEEP Network 2005.

¹⁹² Christen and Pearce 2005.

¹⁹³ SEEP Network 2005; ARC 2006a; EDA Rural Systems 2006b; SEEP Network 2006a.

¹⁹⁴ MEDA 2006c; EDA Rural Systems 2006b; Adhikary and McVay 2006.

Example 40: Partnership between a Program and a Financial Institution

MEDA, Tajikistan



MEDA has been working in the fruit and vegetable sector in the Sugd Oblast of northern Tajikistan since March 2004. This program, funded by CIDA, is strengthening horticulture production, post-harvest handling, processing facilities and marketing capacity. In addition, in partnership with a local MFI partner, IMON (formerly the National Association of Business Women of Tajikistan), MEDA has provided loan capital and technical assistance for expansion of rural lending, with a focus on horticulture. In the four regions in which MEDA and IMON are collaborating, agricultural extensionists and loan officers work in close collaboration, offering each other training, advice and cross-referrals. As a result, IMON has rapidly grown a highly successful loan portfolio with no default and 100% repayment of both group and individual loans. IMON credits their success to the input of the agricultural extensionists. In fact,

as IMON expands into other oblasts, they are planning to hire an agricultural advisor and pay his or her salary based on a percentage of the interest earned from the rural loan portfolio. Thus far, the project has disbursed 5,500 loans, with 2,037 active clients and a total portfolio of more than \$790,000.



For more information, contact Nigel Motts at nmotts@meda.org or see www.meda.org and www.bdsknowledge.org
Source: MEDA 2006c

The emerging area of developing foundation markets represents a triumph of cross-fertilization among various fields. Lessons from markets and programs, plus creativity in recombining existing ideas and strategies, has increased leverage and

benefits to the poor. This kind of synergy among communities of practice, and this shift in methods of development work, marks a significant triumph over ideological and institutional barriers that hindered previous efforts.

7. Relief to Market Development in Crisis-Affected Situations

The primary author for this chapter is David Rinck of Catholic Relief Services.

The past year witnessed ongoing conflicts in such environments as Afghanistan, Iraq, Nepal, Palestine, and Lebanon, and the emergence of peace in others such as Southern Sudan, Sierra Leone, and Liberia. Several areas are still recovering from sudden onset natural disasters, including the Asian Tsunami and earthquakes in Indonesia and Pakistan. The search continues for solutions to long-term natural disasters such as the drought in the Horn of Africa. These events are stimulating increased attention and new approaches to critical questions affecting survivors. When conflicts and natural disasters devastate lives and physical infrastructure, they also disrupt local economies, leaving in their wake traumatized individuals with reduced assets and a significantly changed marketplace. These people need much – food, shelter, medicine, and the tools and equipment to re-start livelihood activities. However, the quick delivery of such relief commodities can in turn disrupt the recovery of markets, by eroding effective demand, and replacing commercial trade with new trade in relief commodities.¹⁹⁵

How can relief be delivered in ways that minimize market distortion and dependency, and strengthen market responses? How can programs support local markets to help businesses establish and grow? How can systems be better rebuilt, by helping to mitigate or prevent conflict, or supporting communities to be more resilient to natural disasters such as drought?¹⁹⁶ Although there is tremendous diversity of experience in “crisis-affected” situations, this chapter reports on broad experience from the relief and market development communities. These two groups are engaging in debate, synthesizing

lessons learned, and devising new strategies to help strengthen sustainable livelihood security in crisis-affected settings.¹⁹⁷

7.1 Market-Integrated Relief

Relief traditionally refers to the delivery of needed commodities – food, water, shelter, and health care – provided to people affected by a crisis to meet immediate needs. Relief supplies have generally been delivered through specific “relief channels”, temporarily set up by specialized implementing agencies. In 2006, several implementing agencies are focusing on market-integrated approaches to relief delivery to simultaneously deliver needed aid and promote the re-emergence of markets. In “market-integrated” approaches, emergency relief agencies partner with the private sector where possible to meet emergency needs.

A market-integrated approach to relief poses its own risks. These include overstretching the capacity of markets and private sector businesses to deliver needed goods to populations in distress, which may leave them even more vulnerable. It also poses the risks of inflation or price swings in markets where goods are scarce and prices rise easily. Political and ethnic conflicts pose challenges, as well. For example, relief and development resources may be monopolized by one ethnic group, a dominant economic group, or one side of a military conflict.¹⁹⁸ But market-integrated relief approaches can also effectively support economic rehabilitation, by stimulating a rapid resurgence of production when

¹⁹⁵ Debate on market impact of relief has been spurred in part by discussions on the impact of food aid on international commerce at the World Trade Organization (WTO). For example, see www.tradeobservatory.org.

¹⁹⁶ This is increasingly referred to as “building it back better” (B3).

¹⁹⁷ The term “crisis-affected” is used here to encompass both post-conflict and post-natural disaster situations as well as situations where conflict or long-term natural disaster are on-going.

¹⁹⁸ Lister and Pain 2004.

relief resources flow through commercial channels. This can also support re-linkages of supply chains with affected areas, and may offer opportunities to foster institutional development. This section examines experiences in three aspects of market-integrated relief work: market assessment, demand stimulation, and supply chain strengthening.

7.1.1 Market Assessment for Market-Integrated Relief Work

Implementers have improved assessment processes to determine where market approaches may be appropriate.¹⁹⁹ Critical issues covered during the assessment process include:

- Price elasticity in target markets, to determine if operations will result in increased access to goods by beneficiaries—or in inflation, which may increase distress;
- Assessment of the impact on supplier markets of commodities;
- Determination of whether relief can be delivered through pre-existing market channels;

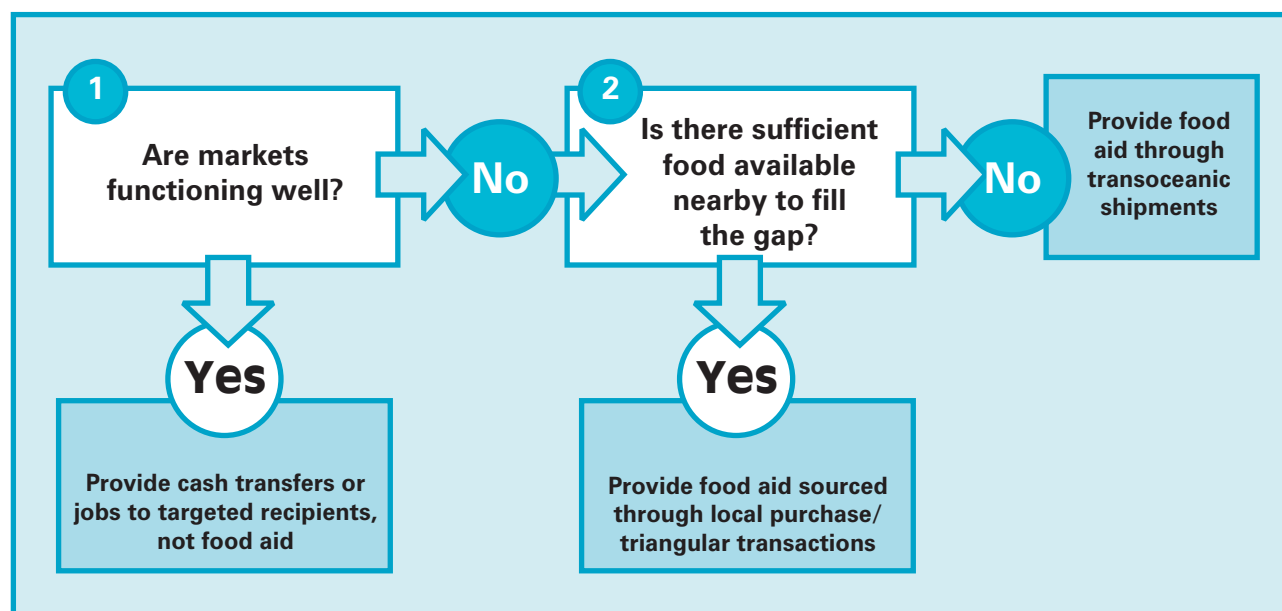
- Potential for substitution between various commodity choices, to determine commodities that will be “self-selecting” for lower-income consumers; and
- Market chain analysis, to determine where to introduce in-kind assistance.

Figure 8 shows a food aid decision tree useful for determining when, and how, market-integrated relief is appropriate.

7.1.2 Demand-Side Interventions

In the aftermath of crisis, the purchasing power or productive capacity of affected populations often collapses. In these cases, market assessment must determine the geographical scope of the crisis, and whether functioning national or regional markets can supply affected areas. In such cases, relief agencies have designed short-term subsidies to link affected populations to markets through vouchers or direct cash transfers.

Figure 8: Decision Tree for Food Aid Responses²⁰⁰



¹⁹⁹ See, for example, El-Dukheri and Khojali 2004.

²⁰⁰ Barrett and Maxwell 2005.

Example 41: Emergency Food Vouchers

CRS Rapid Assistance Program (RAP), Kenya



Photo Credit: David Snyder

Kenya is facing the worst drought in 50 years, with 27 out of 72 districts affected. Rates of malnutrition in affected areas stand at 30 percent. Nearly 3.5 million rural pastoral and farming people, including 500,000 school children, are in need of emergency assistance. The drought is characterized by a contracting access but stable availability situation:

- **ACCESS:** Following five consecutively failed or poor seasons, people have lost many of their savings and assets.
- **AVAILABILITY:** In Kenya as a whole, there are more than enough basic staples (including maize and beans) to feed the population.

In response, CRS privately funded the Rapid Assistance Program (RAP). The RAP is a four-month pilot program that increases access to food for vulnerable people through a food voucher system using existing market channels in the target areas of Kitui and Makueni. The RAP supports 2,503 pregnant and lactating women, and 3,502 malnourished children under five. CRS partners distribute the vouchers to drought-affected families through health centers on a monthly basis. Asking beneficiaries where they usually shopped generated a list of participating shops. Shop owners redeem the vouchers for cash from CRS partners on a weekly basis. A public awareness campaign on nutrition encourages beneficiaries to use the vouchers to purchase adequate stocks of maize and beans. But recognizing the substitutability of income, the vouchers can be used to purchase any goods deemed necessary. To avoid inflation, CRS undertook a mini-market chain analysis and distributes the vouchers on a rotating basis, rather than all at once, in order to smooth increased demand.

For more information, contact Hanna Dagnachew, CRS/Kenya Basic Needs Division at hanna@crsnairobi.org

Source: Rinck 2006

Food and input vouchers: allow local shops and service providers to continue to function through crisis situations. In 2006, relief implementers employed food vouchers to improve access to commodities and services for affected populations in diverse locations including Indonesia (Aceh), Kenya, Haiti, Niger, and Zimbabwe.²⁰¹

Vouchers can go beyond facilitating access to food, and can help rebuild input-supply networks to rebuild livelihoods, such as farming systems.²⁰²

Traditionally, programs have assumed that disaster prevents markets from functioning. Practical experience is refuting this assumption in many places, and practitioners have highlighted the need for programs to treat each input as a discrete sub-sector in post-crisis assessments.

²⁰¹ Oxfam 2006.

²⁰² Sperling, Remington, Haugen and Nagoda 2004.

Example 42: Seed Vouchers and Fairs (SV&F)

CRS, Uganda

Seed Security Assessments reveal that the problem is frequently access to, not availability or quality of, seeds. Therefore, programs can increase the ability of conflict-affected farmers to acquire seeds through provision of cash or vouchers. Vouchers are often combined with dedicated seed fairs that bring seed sellers and voucher holders together. CRS has found that SV&F activities are an effective way to hasten agricultural recovery from disaster, and strengthen rural markets.

In Uganda, an escalation of civil conflict in the districts of Gulu and Kitgum in 2002 created an enormous emergency need and acute shortages of food and seeds. CRS/Uganda responded to the emergency with a variety of interventions including provision of food and non-food items and help for farmers to acquire seeds using the seed voucher & fair approach to boost production and increase food security. This first SV&F intervention targeted 13,000 households in Gulu and Kitgum with each beneficiary receiving vouchers worth US\$8.33. The 13 seed fairs attracted 809 seed vendors, of which 19% were women. In 2003, 18 seed fairs were conducted attracting 1,028 seed vendors, of which 23% were women. (Selection of sites was mainly dictated by security conditions; thus, men were more likely to travel in insecure areas on bicycles with large quantities of seed to the fair sites.)

The experience in Uganda shows that when seed security assessment indicates a problem of access, a combination of seed vouchers and fairs is an efficient approach to facilitate farmer acquisition of seed and an effective way to strengthen rural seed markets.

For more information contact Tom Remington, CRS Agriculture Adviser, at tremington@crsearo.org
Source: Bramel, Remington and McNeil 2004

Limited duration cash transfer: is an even more flexible form of demand-side subsidy. Cash transfer programs can deliver benefits and stimulate economic growth, through stronger, steadier demand for agricultural production.²⁰³ Market assessments are required to assess how to avoid stimulating inflation, which may cancel the benefits of transfer. Useful tools for this may include market chain assessments that look at past relationships of price and supply fluctuations, and that assess the response time and capacity of local traders.

Example 43: Emergency Cash Transfers

Horn Relief and Norwegian People's Aid (NPA), Somalia

Horn Relief and Norwegian People's Aid (NPA) undertook an Emergency Cash Relief Program (ECRP) in the Sool Plateau in Somalia in 2003-2004. This program, funded by Oxfam Netherlands, distributed a total of US\$691,500 to 13,830 drought-affected households, making it the largest cash response ever mounted in Somalia. The ECRP was initiated following an OCHA-led inter-agency assessment in ten villages in Sool and Sanaag, carried out in October 2003.

According to an external final evaluation, all the cash grants were invested in food, water, health, and debt repayment. Beneficiaries reported that their daily food intake increased by at least one meal. The grants enabled some households to move weak, emaciated herds away from overgrazed pasturelands to less-affected locations. One month after the cash distribution, communities reported that begging and dependence on social support systems had fallen by an average of 90%, based on accounts from the households interviewed.

For more information contact Humanitarian Practice Network at hpn@odi.org.uk
Source: Degan and Tilleke 2005

²⁰³ Harvey, Slater, and Farrington 2005.

7.1.3 Supply-Side Interventions

Although cases of supply failure are much more rare than commonly thought, relief supplies are sometimes required. Utilization of existing commercial channels to deliver supplies may present opportunities to develop or preserve existing food processing and marketing capacity by employing idled enterprises to deliver various types of in-kind assistance.

Market Assistance Programs (MAPs): are an approach to distributing in-kind food aid to targeted beneficiaries using existing commercial market channels.²⁰⁴ The primary objective of a MAP is to increase access of poor households to affordable food supplies in the market.²⁰⁵ Secondary benefits could include the promotion or maintenance of market institutions threatened by food shortages, such as mills, refineries, wholesalers, and shops.²⁰⁶

Local/Regional Purchase (LRP): of required commodities is gaining acceptance as an alternative to transoceanic shipment of in-kind aid. This approach may develop or maintain market linkages to commercial supply sources for vulnerable populations. In addition, locally purchased commodities are inevitably more familiar and acceptable to recipients. LRP also offers greater cost-effectiveness over transoceanic shipments, and less potential to displace international trade.

Because LRP usually takes place in countries with weak internal linkages, low per capita incomes, and low per capita food availability, the danger exists that purchases of food for emergency relief in local markets will drive up prices, resulting in increased food insecurity in either target or purchasing locations. This demonstrates the need for market assessments to better understand the impact of local and regional purchase on host countries.²⁰⁷

Example 44: Local Purchase

World Food Programme (WFP), Ethiopia

Food production in Ethiopia is characterized both by deficit and surplus production, the former mainly in the northern, eastern and partially in the southern regions, and the latter in the western and central parts of the country. The country often faces severe food shortages in one part and surplus production in the other. Lack of purchasing power has translated into market problems for surplus producers, while simultaneously those in deficit need relief assistance. The local purchase of food aid has helped address the need of both groups, creating effective demand for the former and access to staple food through relief to the latter. The surplus production in the country has often made it possible to supply up to 25% of Ethiopia's relief needs at below import-parity prices.

Between 2000 and 2004, some 2-3% of the net domestic grain production (of maize, wheat and sorghum) or about 20% of its marketable surplus was purchased for food aid. Out of the total procured, WFP's share was on the average about 30% (of the total annual food aid purchases by donors) and in good production years up to 45%. This is a notable achievement. While contributing to the national benefit, WFP has also been able to buy cheaply, gaining about Birr 674 or USD 78/MT from the procurement of wheat and sorghum during 2001-2004. This allows the WFP to maintain and, when possible, expand the program.

For more information, contact Agridev Consulting at agrideveth@ethionet.et
Source: Agridev Consulting 2005 (conducted for WFP Ethiopia)

²⁰⁴ See Chapter 1 for an example of a MAP.

²⁰⁵ Diskin 2005.

²⁰⁶ USAID Office of Food for Peace (USAID/DCHA/FFP) 2005.

²⁰⁷ The World Food Programme (WFP) has, through increased funding largely from European donor countries, led the way in LRP, procuring approximately one fourth of its commodities in the markets where it distributes them. In 2006, WFP LRP activities have taken place in Bolivia, Burkina Faso, Ethiopia, Nepal, South Africa, and Uganda.

Example 45: Using Aid to Support Market Linkages

Mercy Corps, Kosovo and Eritrea

In Kosovo in 1999, as refugees returned following the NATO bombing, Mercy Corps provided cash, credit, and food commodities (vegetable oil, wheat flour) to 14 bakeries in the heavily war-damaged western city of Peja. These inputs, which allowed local bakers to restart their businesses, were repaid in the form of free or subsidized bread to over 40,000 refugees returning to urban neighborhoods. This approach re-established traditional customer-supplier relationships, to the extent that 13 of the 14 bakeries were operating profitably two years after the close of the program. This program was funded by CORDAID and USAID.

During the peak of a severe food security crisis in the Horn of Africa in 2003, Mercy Corps sought to increase demand for veterinary services while providing emergency relief to livestock herders. Mercy Corps provided emergency veterinary services and survival rations of concentrated feed to small livestock herds in Eritrea, then requested herders to pay in-kind for these services with 5% of their herds (usually 1-2 small animals, or a \$500 value, per family). After one year, the herders observed the positive effects of feed and veterinary services, including improved animal health and a 30% increase in herd survival rates. These benefits resulted in improved family income and child nutrition. Herders' willingness to pay for veterinary services increased by almost 100% and demand for locally produced, concentrated livestock feeds also increased. The increased demand for veterinary services resulted in the revitalization of for-profit, community-based para-veterinary networks in remote regions, which had been dormant since the early 1990s.

For more information, contact Josh DeWald at jdewald@lk.mercycorps.org
Source: DeWald, 2006

It is likely that emergency relief implementers will ultimately develop tailor-made "hybrid" programs, based on market chain assessments, which deliver both supply and demand subsidies to affected populations as needed.²⁰⁸ In-kind commodity aid practitioners are also finding increasing use in involving the local private sector in emergency response to support local economic recovery.

7.1.4 Relief Resource-Assisted Institutional Development

Market-integrated relief approaches also have the potential to provide the muscle to develop institutions that perform critical market function.²⁰⁹ Such institutions may include warehouse receipts programs, trading floors and exchanges, and grading and standards systems. Several LRP programs have promoted grading and standards systems for the commodities that they procure, but much analysis remains before the potential of this approach is fully developed.

7.2 Private Sector Development in Post-Crisis Situations

In 2006, the relief-to-development continuum continued to shorten, as private sector development practitioners were called upon to work in crisis-affected situations, and as crises impinged on areas where PDS programs are active.²¹⁰ Many efforts to restart and strengthen businesses in post-crisis settings have focused on free asset replacement and grants-to-microfinance initiatives, sometimes coupled with free business management training. MFIs have been able to administer lending programs in crisis-affected situations with below-mainstream performance, but nevertheless reaching many clients and contributing to long-term institutional development. However, business rehabilitation has been on a smaller scale, and less sustainable. Some market development and BE practitioners are beginning to devise market development strategies in crisis-affected settings by

²⁰⁸ Already CARE has a hybrid program in operation in Aceh, Indonesia. See Chuzu and Viola 2006.

²⁰⁹ Walker, Coulter, and Hodges 2005.

²¹⁰ Two key forums for evaluating market development approaches in post-crisis situation are SEEP (see: <http://www.seepnetwork.org>), and GTZ (see: <http://www.gtz.de/en>).

Example 46: Conceptual Framework for PSD in Reintegration and Reconstruction Programs

GTZ, global and Sierra Leone

Based on experience in Sierra Leone and other countries, GTZ has identified four principles or pillars for PSD in post-conflict reconstruction.

- **Reconstruction of social and economic infrastructure:** including reconstruction efforts that redevelop physical infrastructure—roads, electricity, water and sanitation facilities, etc.—at both large and small scale. While small-scale infrastructure development creates immediate employment, large-scale infrastructure projects allow for medium-term economic growth.
- **Interventions to promote private sector development:** including SME promotion at the micro level where the availability of partner institutions is limited, Local and Regional Economic Development at the meso level (sector promotion strategies, regional trade initiatives, business promotion agencies), and investment climate reform at the macro level.
- **Promoting the financial sector:** including microfinance service provision and financial sector reform.
- **Strengthening labor markets:** training in vocation and business entrepreneurship, organizing apprenticeships, providing “toolkits” for business start-ups, and most importantly, labor insertion services.

The activities reinforce one another. For example, community organizations could identify the infrastructure projects and targeted sectors. Laborers on the infrastructure projects would receive on-the-job training, and be paid in kind with tools and materials to start related businesses, such as construction. Job training would focus on the key sectors and labor requirements of infrastructure initiatives, and internships and jobs would be available in the businesses the program supports.

For more information, contact Sabine Becker at Sabine.Becker@gtz.de or private.sector@gtz.de
Source: Macdonald 2006 for GTZ

adapting existing approaches from other settings. Overarching frameworks and lessons are beginning to emerge on how to approach PSD in a crisis-affected setting.²¹¹

PSD in post-crisis settings often represents an effort to “build it back better” (B3) to develop a more vibrant and resilient private sector, address some of the root causes of the crisis, and help develop a safety net in case of future crisis. This section reviews initiatives in crisis-affected areas in BE, value chain development, and foundation services. It then presents some lessons learned to date in this emerging area of PSD.

7.2.1 BE Reform in Crisis-Affected Settings

A suitable starting point for BE reform in crisis-affected settings is the creation of an open forum for public-private dialogue on BE issues.²¹² This forum may enable local businesses and government to establish regulations to facilitate business functioning even if a national regulatory framework is not in place.

²¹¹ MacDonald 2006.

²¹² MacDonald 2006.

Example 47: Afghan Investment Support Agency (AISA)

GTZ, Afghanistan

In 2003, the Afghan Government, with financial support from BMZ and technical assistance from GTZ, introduced a “one-stop shop” for investors. The Afghan Investment Support Agency (AISA) helps to facilitate business registration and interaction with government. Since AISA’s introduction, the registration time for new businesses was reduced to less than a week. It is ranked by the World Bank/IFC “Doing Business 2006” survey as one of the best in the developing world, and the best in the region. After nearly two years of operations, AISA has registered more than 3,300 businesses with a total planned investment of 1.3 billion USD and more than 130,000 direct jobs envisaged. In addition, AISA has become an important voice in Afghanistan for BE reform. AISA has demonstrated that rebuilding core institutional capacity need not wait until legal reforms have been implemented.

For more information, contact Corinna Kuesel at Corinna.Kuesel@gtz.de or private.sector@gtz.de
Source: Kessing, Gawhari and Fatiimie 2005 (for GTZ)

7.2.2 Value Chain Development in Crisis-Affected Settings

Often vulnerable populations work in the informal sector, or are only tenuously linked to markets. Several agencies are focusing on strengthening value chains in crisis-affected settings, often in explicitly pro-poor ways.²¹⁵ For example, one program is helping women in tsunami-affected areas of Aceh, Indonesia to take advantage of new market opportunities for craft production and sale.²¹⁶ Another seeks to strengthen the cow pea value chain in Liberia.²¹⁷ Programs may seek to improve producer access to market information, in order to increase knowledge of how to generate increased financial returns. Or, they may formalize market structures that serve the poor, such as input systems, grading and standards systems, and financial products. Market structures are inevitably intertwined with local politics, culture and conflict, forcing programs to address these issues along with economic issues.

In conflict situations, it is critical that BE reform efforts provide an opportunity for reconciliation, rather than reinforcing conflict.²¹³ For example, a BE reform program in Bosnia and Herzegovina created and built capacity of sector-wide business associations that represented multiple ethnic groups. The program then created networks of these associations, and a parallel network of mayors in the towns where BE work was occurring. The final layer was a working group of the heads of both networks. At each layer, multiethnic representation was a priority.²¹⁴

²¹³ MacDonald 2006.

²¹⁴ CHF 2006a.

²¹⁵ DFID 2005.

²¹⁶ STC 2006.

²¹⁷ Morgan 2006.

Example 48: Value Chain Development in Post-Crisis Settings

Veterinarians Without Borders, Belgium (VSFB), Southern Sudan

A long-term peace agreement is finally taking hold in South Sudan after a 20-year war. In Tonj (North and East Counties, Warrab State), VSFB, with funding from USAID, is working to privatize veterinary medicine and services that have been subsidized by relief agencies for over a decade. There is a well-established system in which relief agencies deliver medicines through a set of trained and qualified animal health workers (AHW). These workers supervise community animal health workers (CAHW) who distribute the medicines and provide advice to livestock rearers for a fee. AHWs initially resisted privatization – refusing to purchase medicines from a new, quasi-private pharmacy; spreading rumors to CAHWs about privatization; and using their monopoly power to try to convince relief agencies to continue subsidies. The project responded by opening the pharmacy to the CAHWs to immediately create a more competitive environment. Future plans include attempting to bring “black-market” medicine traders into partnerships with the AHWs to form additional pharmacies, to train managers to improve trading practices, and to link these pharmacies with private suppliers in Uganda, Kenya, and Khartoum. The strategy is to open more channels and integrate the formal and informal markets to increase supply and competition while maintaining quality.

For more information, contact Simon Kihu Mwangi, VSFB at smwangi@vsfb.or.ke or see www.vsf-belgium.org
Source: VSFB 2006; Arasio and Mwangi 2005



7.2.3 Foundation Services and Markets in Crisis-Affected Settings

Most rehabilitation programs focus on providing basic business start-up or restart counseling and training. A few are using innovative market stimulation approaches to develop markets for these services. For example:

- In Sierra Leone, an integrated, multi-agency program built the capacity of NGOs and private trainers to offer business planning and management training. It then provided vouchers to target individuals to enable them to select from trained providers.²¹⁸
- In Palestine, a business service center is linking businesses with business services providers by providing diagnostic and matching services.²¹⁹

In addition, some programs link clients to existing infrastructure, such as financial institutions, to help businesses restart after the Asian tsunami.²²⁰ Other programs are providing extensive vocational education and helping young graduates get started in business by providing “toolkits” and entrepreneurship training.²²¹ Developing foundation markets may also entail developing products, such as insurance, to mitigate long-term risk.

²¹⁸ ARC 2006.

²¹⁹ The Small Enterprise Center n.d.

²²⁰ GTZ 2006g.

²²¹ MacDonald 2006.

Example 49: Vocational Education and Business Start-Up

Cooperative Housing Fund International, Colombia

Colombia has suffered an internal armed conflict for more than four decades.

Cooperative Housing Fund (CHF) International seeks to improve the lives and living conditions of internally displaced people and their host communities. CHF provides vocational training, job placement, entrepreneurship training, seed grants, and access to credit, along with psycho-social counseling. In its four years of operations, the program trained 20,257 people, funded 14,232 businesses, and helped create 35,414 jobs. A mid-term evaluation revealed an 80% job placement rate, a 95% business survival rate, and an average of 2.6 jobs generated per assisted microenterprise. The program cost was \$20 million.

For more information, contact Sue Miller at smiller@chfhq.org or Bryan Winston at bwinston@chf.org.co or see www.chfinternational.org
Source: CHF 2006b

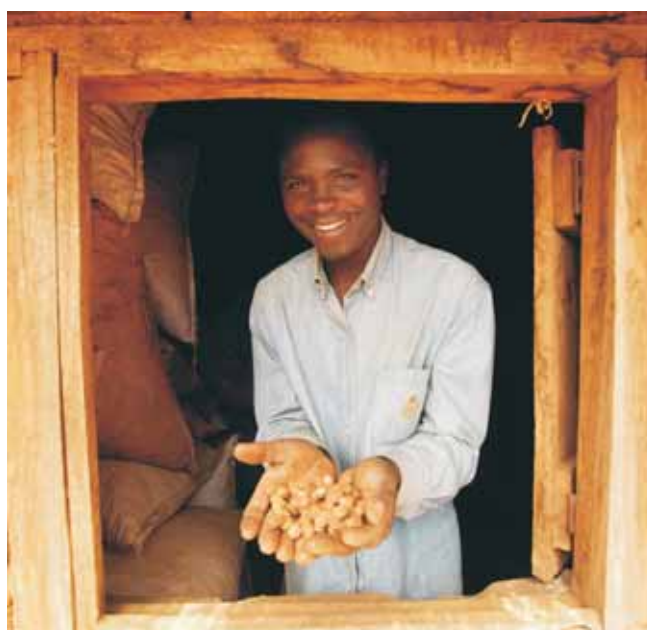
Example 50: Crop Insurance

Opportunity International and World Bank, Malawi

Peanut farmers in Malawi have traditionally relied on local seed. In hopes of producing greater yields and a more competitive product, however, some farmers have become interested in planting an improved peanut variety. However, they lack cash to purchase high quality seeds, and banks have been unwilling to lend to them, primarily because of default risk in the event of a drought.

With technical assistance from the World Bank and Opportunity International, the National Smallholder Farmers' Association of Malawi, in conjunction with the Insurance Association of Malawi, designed an index-based weather insurance policy that covers farmers if rainfall is insufficient. OI, the Bank, and Malawi Rural Finance Corporation agreed to provide loans to farmers for high-quality seed if the farmers bought the insurance. In four pilot districts, 892 farmers purchased the weather insurance. This not only benefits farmers, but also allows banks to expand their lending portfolio while mitigating their risk.

Source: USAID 2006



7.2.4 Emerging Lessons and Challenges

While additional lessons will emerge with more experience, a few recommendations have become apparent:

- **Market-oriented program design:** It is best to incorporate concepts for market-oriented relief and for private sector development into initial activity designs, as early into relief planning as possible. Relief and development initiatives should not be limited to direct investment in affected people. Investments may also be needed in larger businesses or institutions in order to leverage benefits for affected individuals, and to strengthen BE reform and market development systems.
- **Holistic approach:** Markets consist of individuals who have experienced trauma and loss, and who may be party to conflicts. Private sector development should take account of these factors, “do no harm”, and provide or link program staff, partners and clients with psycho-social services to help them cope and function.
- **Build back better (B3):** Use the post-crisis period as an opportunity to support more open and inclusive markets, to help prevent future conflict or disaster where possible, and to help improve disaster preparedness.
- **Capacity building:** Capacity at all levels of market-oriented activities is weak. Programs should include capacity building for the target population, service and commodity delivery agents, and businesses, and program implementers.
- **Coordinated relief and development efforts:**²²² A useful tool would be a hybrid “emergency market chain assessment” that takes several days rather than several months, and that can support traditional emergency needs assessments undertaken by relief implementers. Practitioners also suggest allocating regions or activities among different agencies to reduce duplication, competition for clients, and coordination meetings.

²²² Muench 2006.

8. Accountability for Results in Reducing Poverty

The expansion of efforts to open and stimulate market systems that can significantly reduce poverty is hampered by a glaring and persistent gap: weak performance assessment, impact evaluation, and capacity building. Despite the consensus for better program evaluation reached by the BDS market development community in 2000,²²³ the need for better program evaluations, rigorous studies and proxy indicators for poverty reduction has, by and large, not been addressed. In fact, there is still no common agreement about what aspects of impact and performance should be measured. The extensive review of programs and donor strategies for this Reader produced few examples of credible impact measurement on target enterprises and poor people, or of systematic assessment of wider market system change as a result of program activities. Similarly, calls from practitioners for support and learning about new approaches have been addressed in an ad hoc manner, hampering the quality of implementation and breeding skepticism about market development.

8.1 Getting the Models Right: Performance and Impact Assessment during the Pilot Phase

Key gaps and progress in conducting pilot-level impact assessment follow.

Causal chains and targets: While most agencies monitor to what extent their direct target enterprises and stakeholders benefit, only a few have defined explicit causal models for benefiting poor people.²²⁴ The elaboration of clear causal chains has enabled these practitioners to develop better indicators and incentives for change at each level of a causal chain, and to more carefully examine and improve the

Gap: Assessing Impact on Poverty Reduction

Most programs focus impact assessment on figures for outreach – how many enterprises and/or people is the program reaching? A few gather enterprise-level impact data, but often with problematic methods for data gathering and analysis. Most programs cannot provide figures on the extent to which interventions, even at the pilot stage, have impacted household incomes, employment or vulnerability. Admittedly, this is difficult, and arguably a waste of resources for smaller programs. Nevertheless, the PSD field as a whole cannot show with any rigor that particular kinds of programs, types of enterprise, or market changes generally produce specific types of poverty-reducing impact. How, then, can programs or fields of practice answer the demand for demonstrated results in poverty reduction?

logic of how program activities can lead to impact on poor households.

Control groups: Control groups can help programs to address the difficult issue of attributing benefits to program activities. However, most programs and donors consider this strategy too complicated or costly. A few programs are experimenting with the use of control groups to understand and more rigorously measure the extent to which their programs are having the desired effects on enterprises. The methodologies so far in place, however, tend to be neither comprehensive nor very rigorous.²²⁵

²²³ At the Committee of Donor Agencies on Small Enterprise Development conference in Hanoi on BDS market development.

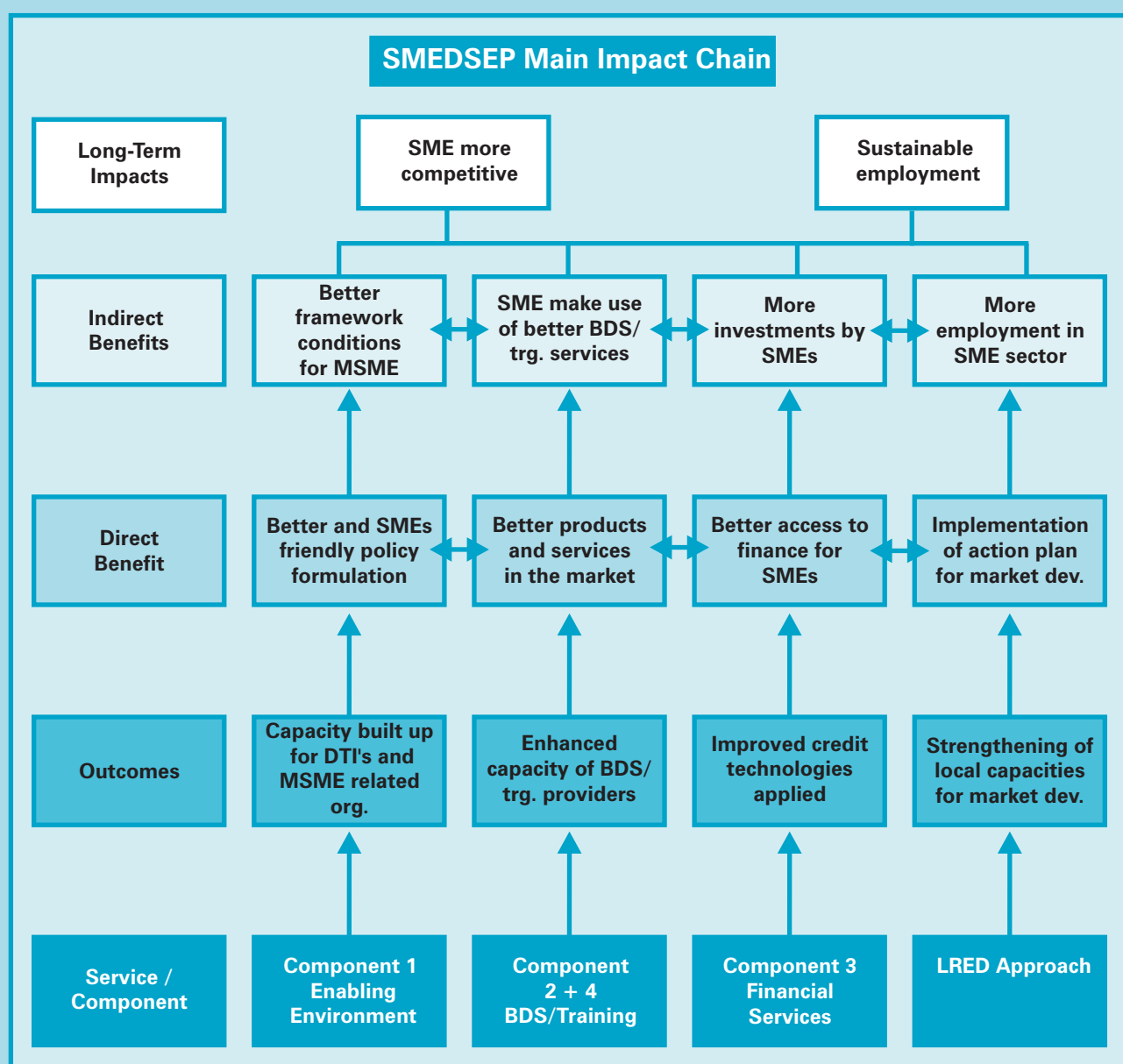
²²⁴ Monteiro and Brusky 2006; KATALYST 2006; Adhikary and McVay 2006; Ramm 2005.

²²⁵ Monteiro and Brusky 2006; GTZ 2006; BDS Zambia 2006; Adhikary and McVay 2006.

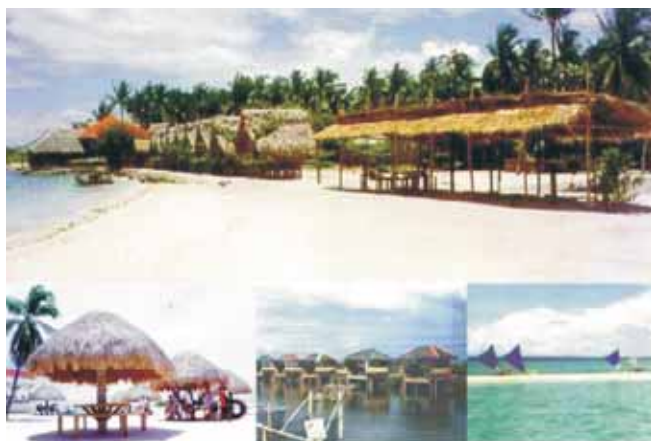
Example 51: Causal Chains and Targets

GTZ and GFA Consulting, the Philippines

The Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP), implemented by GTZ and GFA Consulting and funded by BMZ, aims to promote business conditions in the Philippines that harness entrepreneurial potential and encourage competition. SMEDSEP works at four levels: the BE, business services for SEs, financial services, and workforce development. In the early stages of implementation, GTZ developed a monitoring manual for the program that outlines in detail the causal chains for each component of the project, indicators to monitor progress at each level of each causal chain, and “milestones” or targets for key indicators. The overall causal chain for the program is depicted below.



For more information, contact Carisa Aleta at ca-gtz@mozcom.com or see <http://www.smedsep.ph/> and www.bdsknowledge.org
 Sources: Ramm 2005; Becker, Jansen, Roaring and Zveglic 2005



Assessing the sustainability of new behaviors:

Some programs are looking at the extent to which assisted firms continue with new behaviors without program support.²²⁶ For example, do assisted lead firms make new contracts with small farmers without program assistance? Do assisted support providers continue to develop and sell new products without subsidies or technical assistance for product design? Exploring this during the pilot phase helps agencies learn if entrepreneurs are likely to accept new business models on a larger scale, and without further program assistance, in the future.

Software and systems: Several agencies are using computers and customized software to record and analyze field-level impact data, particularly on enterprises at various levels in value chains.²²⁷ Among other benefits, these systems help managers to hold programs and staff accountable and to provide incentives for them to achieve performance-related targets.



Example 52: Experimental and Control Groups with Lead Firms

DAI Brazil

The Micro and Small Enterprise Trade-Led Growth Project in Brazil, implemented by Development Alternatives, Inc. and funded by USAID, aims to promote export-led growth among micro- and small enterprises in four subsectors in Northeast Brazil, resulting in increased incomes and employment. In 2005, the program conducted a baseline study to gather data for an impact assessment that will take place at the program's conclusion. The impact assessment aims to answer two questions:

1. To what extent is the program successful in promoting access to the global market?
2. What, if any, are the eventual impacts on job and income creation in the value chains where these interventions occur?

To answer these questions, the impact assessment analyzes two levels of the value chain: exporting firms and microenterprise producers. The impact assessment gathers information about the performance and behavior of exporting firms through interviews. The methodology includes an experimental group, who will participate in the program, and a control group, who will not. Control groups are not being used at the level of ME producers.

For more information, contact Lara Goldmark at Lara_Goldmark@dai.com or see www.microlinks.org
Source: Monteiro and Brusky 2006

²²⁶ Adhikary and McVay 2006; Gibson 2005; MEDA 2006d.

²²⁷ MEDA 2006c; EnterpriseWorks/VITA 2005; Becker, Jansen, Roaring and Zveglic 2005; BDS-MaPS n.d.

Example 53: A Global Impact Tracking System

EnterpriseWorks/VITA, Worldwide

In addition to monitoring and evaluating each project separately, EnterpriseWorks/VITA (EWV) created an annual impact tracking tool which measures the results for all the projects in the portfolio using a standard set of indicators. This system allows for comparison and aggregation across projects, geographic regions, and program areas. The main indicators tracked include:

- **Economic Participants:** beneficiaries who are directly benefiting from EWV's economic activities. EWV counts producer participants and consumers who receive a minimum of US\$20 incremental gross income gains or cash savings per year as a result of the project.
- **Project Beneficiaries:** households and family members who benefit indirectly from the increased incomes or savings generated by the economic participants.
- **Total Monetary Benefits (TMB):** the amount of increased net income and cash savings to small producers and technology consumers.

The system allowed EWV to calculate, for example, that the total monetary benefits (TMB) from its projects in 2004 were US\$14,506,000, which benefited 232,000 economic participants. This represents some \$4 in TMB per donor dollar invested.

For more information, contact Ashby Walsh, EWV at info@enterpriseworks.org or see www.enterpriseworks.org
Source: EnterpriseWorks/VITA 2005

8.2 Systemic Change: Performance and Impact Assessment of the Market Stimulation Phase

Key challenges and several emerging solutions to performance and impact assessment of wider market system changes are profiled below.

Gap:

Assessing changes in market systems

Many agencies gather little or no information on the extent to which market systems are changing. A few gather some information on market system changes, but do not try to explore the attribution of changes to program activities. A few gather anecdotal evidence of market system changes resulting from program activities. It is a rare program that specifies the dimensions of market system change it aims to make, and then systematically assesses the extent to which the program is affecting the target market system along those dimensions. Without an effective monitoring and evaluation system, programs have little incentive to focus on systemic change, and are unable to show objective results that would create momentum for others to replicate success.

8.2.1 Incentives and Disincentives to Track Market-wide Change

Most programs, throughout their life cycle, focus on impact at the level of outreach to enterprises directly affected by program interventions, while ignoring the extent to which market systems are or are not changing more broadly as a result of program activities. This focus distorts program incentives toward replication of subsidized pilot initiatives, rather than stimulating sustainable market take-off. Just as stimulating market systems requires different program activities than pilot program development, each program phase demands different monitoring and evaluation activities.

- **Focus during pilot initiatives:** Do program activities stimulate new business practices? Do new practices reduce poverty? The pilot phase is an appropriate time to focus on direct impact when numbers are smaller, control groups easier to identify, and data more manageable. At this time, programs can decide to prioritize higher-impact initiatives, and establish proxy indicators to support broader impact assessment and reporting later in the project cycle.

■ **Focus during broader market stimulation:** Are promotion and capacity building efforts leading to wider adoption of new business models? Is the market growing, and do businesses attribute this to the new models? How many target beneficiaries are being reached by new market models? At this stage, impact is best assessed through proxy indicators and/or extrapolation based on findings from the pilot because numbers are higher, and attribution more difficult to establish.

Establishing appropriate goals and indicators for each project phase is crucial to getting the incentives right for market stimulation activities.

8.2.2 Key Goals to Measure

What are the key aspects of change that programs need to assess as they stimulate market systems? These should reflect the broad goals described in Chapter 3 that characterize a well functioning market system.²²⁸ In brief, these are: market expansion in terms of sales and number of participants; resiliency and responsiveness; a process in place for constructive BE change; generation of benefits to the poor; and a change driver in place to support ongoing dynamic market change.²²⁹ Programs should focus on monitoring goals that reflect the weaknesses a program set out to address.

8.2.3 Assessing Market System Change in Practice

A few practitioners have taken preliminary steps towards planning and assessing changes in market systems. For example, a handful of programs are:

■ Specifying indicators of market change during or shortly after design. These may include targets, such as a percentage increase in the number of companies using a particular support service, or a measurable increase in the extent to which SEs are integrated into local government decision-making.²³⁰

Example 54: No Credit for Impacts from Stimulating Market Change

Anonymous

After a recent trip to monitor and provide advice on project implementation, a practitioner noted that she had seen considerable evidence of non-assisted enterprises entering the market by copying the behavior of assisted ones. Further investigation revealed considerable benefits to poor producers from these “copycats”. She decided to report these findings to the project donor, but noticed that there was no appropriate space on the donor’s standard impact assessment reporting form for impact resulting from market change beyond assisted enterprises.

Another practitioner invested extensively in an MIS system to report the financial and employment growth in assisted lead firms and support providers, but had no system for tracking SEs served by the lead firms and support providers, or for tracking new lead firms and support provider entrants to the market.

A program placing considerable emphasis on stimulating market systems has been reluctant to estimate the outreach of those efforts to target small enterprises. The program has been tracking market system changes to some extent and has several case studies on individual interventions indicating significant outreach from market stimulating activities. Nevertheless, the program managers are concerned that taking credit for outreach to SEs from market system changes would invite others to accuse them of inflating their outreach figures.

²²⁸ Springfield Centre 2006; Bergl f 2006; Idrovo and Boquiren 2005b; MEDA 2006a; BDS Zambia 2006; Tanburn and Kamuhanda 2005.

²²⁹ Springfield Centre 2006; Bergl f 2006; Idrovo and Boquiren 2005b; MEDA 2006a; BDS Zambia 2006; Tanburn and Kamuhanda 2005.

²³⁰ Ramm 2005.

Example 55: Measuring Changes in Market Systems

BDS-MaPS, Nepal

The Non-Timber Forest Products Marketing and Production Services (BDS-MaPS) project, implemented by International Development Enterprises, Winrock, ANSAB, Lotus Opportunities, and the World Wildlife Fund and funded by USAID, aims to improve the household incomes of 22,000 families by US\$125 per year from the production and sale of non-timber forest products (NTFPs). The impact assessment system for the project is focused primarily on the beneficiary households who gather or grow herbs and spices. However, the BDS-MaPS project also includes targets and monitoring of “outputs”, some of which represent changes in market systems. For example, the targeted “outputs” include:

- BDS providers in the NTFP sub-sector will triple;
- NTFP association membership will triple;
- The satisfaction level with market intelligence services will be above 50% among regular users;
- More than 50% of exporters will voice satisfaction with NTFP taxation policy;
- A functional, certified Phytochemical Analysis Lab will be established.

For more information, contact Radhe Bista, IDE at bista10@yahoo.com or see www.bdsknowledge.org
Source: BDS-MaPS n.d.



- Benchmarking value chain costs or business environment indicators before and/or after project activities, although there is often no or only weak efforts to establish attribution of changes to project activities.²³¹
- Tracking sales of assisted support service providers who are building firms' (SEs, lead firms or other support service providers) capacities to replicate new business models.²³²
- Requiring justification of new activities based on their planned contribution to a strategic vision of market system change.²³³
- Specifying and assessing some measures of system-level change, although sometimes with

weak effort to establish attribution. This might be changes in non-voucher sales for voucher programs, area of land brought under cultivation for a promoted crop, or increased transparency or value added in value chain relationships not facilitated by the program.²³⁴

The methodologies that agencies are finding most useful for assessing changes in market systems are the same methodologies that are useful for identifying weaknesses in market systems. These include value chain analysis, support market assessment, and institutional capacity assessments of market institutions such as associations.²³⁵

²³¹ GTZ 2006h; Adhikary and McVay 2006.

²³² Becker, Jansen, Roaring and Zveglic 2005; Adhikary and McVay 2006.

²³³ Adhikary and McVay 2006; KATALYST 2006.

²³⁴ MEDA 2006a; Nyabuntu 2004; BDS-MaPS n.d.

²³⁵ Springfield Centre 2006.

This does not mean that agencies are, or need to be, conducting comprehensive value chain analyses or other market assessments periodically throughout a program. Instead, they are using information-gathering tools from these methodologies, such as focus group discussions, small surveys, and interviews, to gain insight into the types of changes that are taking place in market systems.²³⁶

8.2.4 Research on Better Performance and Impact Assessment

Several donor agencies are investing in research and information exchange on monitoring and evaluation for enterprise development, value chain development and enabling environment reform.²³⁷ Recent developments include in-depth research to prove and develop proxy indicators for impact in systemic value chain development, and guidance for BE reform initiative impact assessment.²³⁸ In addition, practitioners continue to research and innovate in isolation of one another.²³⁹ The challenge is to increase the scope of research and the application of guidance beyond a few test programs, and to generate momentum for innovation and more widespread application of existing good practices through information sharing and focused dialogue.

8.3 Managing the Change Process and Capacity Building for Quality Programming

Also hindering the adoption and progress of results measurement in opening and developing market systems is the lack of attention to a dissemination and capacity building strategy for the approach. In

fact, the approach itself lacks a clear name and community of practice. This gap can easily lead to misinterpretations of the strategy, poor implementation practices, and skepticism of its potential. This challenge is exacerbated by decentralization of many donor and implementing agencies and significant reductions in centralized technical staff, without the establishment of corresponding new strategies for technical assistance.²⁴⁰

Progress in 2006 towards improved clarity of the field, information exchange and capacity building includes:

- Adaptation of “BDS market development” trainings to reflect – indeed, in some cases, pioneer – broadening of application and new frameworks and terminology, such as value chain system development and M4P.²⁴¹
- Online information sharing via websites and online dialogue on focused topics, such as value chain development.²⁴²
- Case studies that include reflection and lessons learned on agency change and capacity building processes during their transition from more direct, subsidized work to market system development.²⁴³
- An agency’s recent development of a comprehensive toolkit for systemic value chain development.²⁴⁴

The field is ripe, at this point, for leadership in facilitating a stronger global community of practice to support better definition of this field of practice, a more proactive and comprehensive dissemination strategy, and more significant and coordinated investment in capacity building.

²³⁶ Idrovo and Boquiren 2005b; BDS-MaPS n.d.

²³⁷ USAID’s AMAP project, see www.micro-links.org and DFID-funded EDAIS, see www.enterprise-impact.org.

²³⁸ *ibid*; GTZ’s community of practice on results-based monitoring and evaluation www.gtz.de/monitoring.

²³⁹ KATALYST n.d. 2006; Adhikary and McVay 2006; Enterprise Works/VITA 2005.

²⁴⁰ ADE 2005.

²⁴¹ See Annex A.

²⁴² See Annex B.

²⁴³ Adhikary and McVay, 2006; Waltring 2006; McVay and Rannekliev 2005.

²⁴⁴ Waltring 2006.

Example 56: Strategic Change and Capacity Building Strategies

GTZ, global

In addition to playing a pivotal role in the process to define and establish guidance around the BDS market development approach through the Donor Committee, GTZ implemented the following processes to support learning and dissemination in application of BDS market development to PSD initiatives:

- Collaborative product development and knowledge management between headquarters and regions through regional private sector development networks;
- Support of pilot programs with research agendas and which seek to elucidate practical lessons and tools;
- Improved human resource management: investment in training, and introduction of more “business-oriented” criteria for selection of managerial staff;
- Decentralized project management allowing freedom to test innovations, but flowing lessons back to headquarters for documentation of good practices;
- A longer-term (3-5 years) project cycle; and
- Close collaboration with other donors and implementing agencies.

Of 84 private sector projects in 2005, 40 involve at least one BDS component. This work has culminated, as well, in a toolkit for private sector development that provides guidance for systemic approaches to a range of strategies including business linkages, value chain development, and BE reform. GTZ’s work is largely funded by BMZ.

For more information, contact Corinna Kuesel at Corinna.Kuesel@gtz.de or private.sector@gtz.de

Source: Waltring 2006

9. Progress and Challenges in Implementing Sustainable Private Sector Development: Striving for Tangible Results For The Poor

In 2006, the Reader focuses on key lessons learned for reaching large numbers of people on a sustainable basis, reflected in programs that open and stimulate dynamic and expanding markets to channel significant benefits to the poor. Donors and practitioners have taken significant steps forward in implementing this approach. The field remains fairly new, however, and proponents face significant challenges in 2006 that threaten to undermine support for sustainable private sector development strategies. This conclusion highlights progress and challenges reported in the Reader in an effort to recognize significant steps forward, and challenge readers in new directions.

9.1 Progress

The following are some significant achievements in pro-poor growth that illustrate how the field is progressing in opening and stimulating markets to work better for the poor.

- **Engaging the full power of markets to reach large numbers of people:** strengthening pro-poor market systems that replicate improved market models and business practices on an ongoing basis, generating increasing benefits to increasing numbers of people over time.
- **Stimulating sustainable learning systems:** building the capacity of lead firms, market intermediaries, support service providers, and input and technology suppliers to access and transfer knowledge throughout the market in order to strengthen market expansion and responsiveness to change.
- **Creating policy dialogue:** recognizing that “correct” policy is a matter of interest and therefore focusing more intently on strengthening processes and structures for

ongoing policy dialogue, often including giving a voice to the poor.

- **Helping the poor benefit in the global market:** finding and linking the poor to market opportunities around the globe and right next door, on a sustainable basis, on more balanced terms, and in ways that reflect the diverse circumstances of poor people and households.
- **Building foundations:** strengthening the fundamental markets that support a positive investment climate, increase access to critical services, and strengthen other markets critical to the poor.
- **Strengthening and developing disrupted markets:** devising less distortionary ways of channeling necessary relief commodities to crisis-affected communities, and facing the challenge of strengthening markets disrupted by conflict and natural disaster.
- **Significant and dramatic cross-fertilization across communities of practice** concerned with stimulating pro-poor growth, including collaboration between value chain development and financial services programs.

9.2 Challenges

The Reader also raised significant “gaps”, including:

- **Lack of impact assessment and documented results:** continued failure to measure, document and disseminate significant results in eradicating poverty, or even reaching large numbers on a sustainable basis, despite strong anecdotal evidence of significant impact.
- **Insufficient consideration of critical contextual issues that affect pro-poor growth:** including culture, the environment, community and individual health status, gender, ethnic divisions

and groupings, political and conflict-related issues, corruption, and wages and working conditions. There is a particular lack of effective strategies for improving livelihood security for HIV/AIDS-affected communities.

■ **Lack of global direction and leadership on developing-country competitiveness:** with so many countries striving to compete, how to ensure that there is not a drive to the bottom? What processes are in place to advocate for the interests of developing countries in the global economy?

■ **Inadequate attention to some pockets of poverty:** including retail and service businesses, where women and the poor are concentrated, as well as insufficient attention to working conditions and wage rates.

■ **Inexperience in crisis-affected situations:** in improving the BE and stimulating market development.

■ **Lack of tools or a strategy for building capacity in the aid industry for systemic market change initiatives:** including the lack of a clearly defined

name and community of practice for opening and strengthening market systems, and the lack of a comprehensive set of tools and guidance for market system development. These gaps inhibit understanding, dissemination, and learning and put the strategy at risk of misinterpretation and poor implementation, leading to a lack of momentum and impact.

Some of the above challenges are natural next problems to tackle as communities of practice evolve. However, the lack of documented, large-scale results threatens to undermine the approach, as high-level leaders turn to other strategies in search of more significant and clear impacts on growth and poverty eradication. Similarly, the lack of a cohesive community of practice and the lack of focused, effective staff capacity building hinder quality replication of successful strategies. Such hindrances prevent expansion of the approach to the level where it can make a significant difference in poverty eradication.

Annex A: Training and Events

⚙️ Action for Enterprise (AFE)

AFE offers five-day training workshops around the world that present the latest methodologies and practice for designing subsector and value-chain programs that incorporate strategies for sustainable impact. 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 Market Solutions for MSMEs

11-15 September 2006 (Thailand)

9-13 October 2006 (Aachen, Germany)

4-8 December 2006 (Washington, D.C., USA).

⚙️ Cluster Pulse India

Cluster Pulse India, an independent NGO, promotes cluster development in India and other countries. Cluster Pulse periodically offers a seven-day course on cluster development and the provision of business development services. For more information and for upcoming course dates, see http://www.clusterpulse.org/cl_courses.htm

⚙️ DFID, International Alert, BMZ and GTZ

These bilateral and international organizations are organizing an international conference on Private Sector Development and Peace. The program will focus on issues including post-conflict investment, the role of the private sector in peacebuilding and crisis prevention, and post-conflict private sector development. For more information, see: www.businessenvironment.org

Private Sector Development and Peace: Exploring Local and International Perspectives

14-15 September 2006 (Berlin, Germany)

⚙️ Donor Committee for Enterprise Development

The Donor Committee for Enterprise Development (DCED) is a network of donor agencies with enterprise development programs. It periodically hosts events on specific issues related to private sector development. Working Groups are currently active in business environment reform and linkages and value chain development. For more information, see www.enterprise-development.org.

Creating Better Business Environments for Enterprise Development; Asian and Global Lessons for More Effective Donor Practices (conference)

29 November – 1 December 2006 (Bangkok, Thailand)

⚙️ GTZ

GTZ, German Technical Cooperation, is co-sponsoring a three-day conference on overcoming poverty in Asia through local and regional economic development. This conference is hosted by the Lao Ministry of Foreign Affairs, Lao PDR, and sponsored by Swiss Development Cooperation, IFAD, and others.

Local and Regional Economic Development to Overcome Poverty in Asia

22-24 November 2006 (Vientiane, Lao PDR)

⚙️ Households in Conflict Network

The Households in Conflict Network focuses on collaborative research on violent conflict's causes and

effects at the household level. Together with USAID's Office of Poverty Reduction and the German Institute for Economic Research, HiCN is sponsoring a two-day conference of development practitioners, policymakers, and researchers on the challenge of poverty reduction in conflict-affected environments. For more information, see http://www.hicn.org/events_fragilestates.html.

Poverty Reduction in Conflict and Fragile States: Perspectives from a Household Level
8-9 November 2006 (Washington D.C., USA)

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 2006, the event will focus on small enterprises' access to new markets and to services, as well as other innovations and new developments in microenterprise. For more information, see <http://www.iadb.org/foromic/>.

Access to New Markets and Better Services for the Majority
13-15 October 2006 (Quito, Ecuador)

International Labour Organization (ILO), International Training Center

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.

The Seventh Annual Seminar on Business Services: Private Sector Development: What's Next?
18-22 September 2006 (Chiang Mai, Thailand)

<http://learning.itcilo.org/entdev/BDSSEMINAR/pub/home.aspx?l=Eng&IdSezione=2>

http://www.bdsknowledge.org/dyn/bds/bdssearch.details?p_lang=en&p_phase_id=497&p_phase_type_id=6

Business Development Services Distance Learning

Ongoing (remote learning)

<http://learning2.itcilo.org/bds/>

SME Cluster and Network Development: Principles and Practice

Annually each April-May

<http://learning.itcilo.org/entdev/cluster/pub/home.aspx?l=Eng&IdSezione=0>

Creating an Enabling Environment for Small Enterprise Development

16-27 October 2006 (Turin, Italy)

<http://learning.itcilo.org/entdev/ee/>

Training on SME Export Consortia Development

Annually each June-July

<http://www.itcilo.org/consortia>

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

⚙ **MDF Training & Consultancy and Hans Posthumus Consultancy**

MDF Training & Consultancy is an international management training and consulting firm with the mission is to enhance management capacities of professionals and organizations in the development sector. Hans Posthumus Consultancy is a consulting firm offering training for entrepreneurs and enterprise development professionals, business development services, and evaluation of business support programs. Together, they offer tailored training on business development services best practices, as well as a regularly offered course on value chain concepts. For more information, see www.hposthumus.nl.

Value Chain Concepts course

15-19 January 2007 (Ede, Netherlands)

27-31 August 2007 (Ede, Netherlands)

⚙ **Mesopartner**

This German consulting firm focuses on local and regional economic development, including value chain development, cluster promotion, and enabling-environment promotion. For more information see www.mesopartner.com.

Summer Academy on Local Economic Development

Annually each July

<http://www.mesopartner.com/summer-academy/index.html>

⚙ **Red Latina PYMES (Latin American Small Enterprise Network)**

Each year, donors such as Swisscontact and others assemble for a conference for service providers in enterprise development. For more information, see www.redlatinapymes.org

Spanish-American Enterprise Development Service Providers' Meeting

Annually each March-July (Latin America)

⚙ **The SEEP Network**

The SEEP Network works 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.

SEEP Network 2006 Annual Conference "Investing in the Majority"

23-27 October 2006 (Washington, DC)

http://www.seepnetwork.org/section/programs_workinggroups/ids/ac2006

⚙ **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. The Institute includes a three-week, five-course track on making markets work for the poor.

SNHU/SCED, together with the University of Limpopo Turfloop Graduate School of Leadership in Polokwane City, South Africa, annually cosponsor the Microenterprise and Development Certificate in South Africa. Courses are designed for practitioners already working in the fields of microenterprise development and microfinance.

SNHU/SCED Microenterprise and Development Institute

Annually each June (Manchester, New Hampshire, USA)

<http://www.snhu.edu/MDI/>

SNHU/SCED and University of Limpopo Turfloop Graduate School of Leadership Microenterprise and Development Certificate (MDC)

Annually (South Africa)

<http://mdi-sa.org/>

⚙ **The Springfield Centre for Business in Development**

The Springfield Centre is an independent consulting, training, and research organization that specializes in private-sector development in low- and middle-income economies. Current training programs 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>.

Making Markets Work for Business and Income Growth

Annually each July (United Kingdom)

⚙ **USAID Microenterprise Development Office**

The United States Agency for International Development's Microenterprise Development Office provides technical assistance, training, program strategies and designs, and tools to help small producers and firms become established, grow, and integrate into markets and value chains. USAID offers technical assistance and training in the areas of microfinance; rural, value-chain, and housing finance; micro-insurance; remittances; microfinance in post-conflict areas; value chain and cluster development; and trade and agribusiness. For more information, see

http://www.usaid.gov/our_work/economic_growth_and_trade/micro/index.html.

Learning Conference on Microenterprise

Annually (Washington, DC)

www.microlinks.org/conference (for June 2006's conference summary)

⚙ **World Resources Institute**

World Resources Institute is an independent, nonprofit environmental research and policy organization based in Washington, D.C. WRI's NextBillion.net conference in 2006 will focus on sustainable economic growth and poverty alleviation for China. For more information see <http://www.nextbillion.net/confresources>.

Business & Technology Innovation for Poverty Alleviation: A Development Approach for China

27-29 October 2006 (Beijing, China)

⚙ **World Bank Group Knowledge Services for Private Sector Development**

The World Bank Group's Private Sector Development site discusses private sector growth in developing countries. The department offers 'how-to' guides, analyses, enterprise surveys, privatization databases, and a journal on public policy and the private sector. For more information, see <http://rru.worldbank.org>.

Private Sector Development (PSD) Forum

Biannually (next forum is 2008)

<http://rru.worldbank.org/psdforum/default.aspx>

Annex B: 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

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> (also at <http://www.mmw4p.org>)

An interagency information exchange on developing service markets and value chains. While its origins are in Private Sector Development (PSD), this site is dedicated to systemic approaches: developing whole markets for services, to maximize scale and outreach. Contributions come from all development disciplines adopting this approach, including for example PSD, agriculture and health. 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 on donor-supported work to achieve pro-poor growth through creating an enabling environment for business. Recently adopted by the Business Environment Working Group of the Donor Committee for Enterprise Development as its home site.

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.

Donor Committee for Enterprise Development



<http://www.enterprise-development.org/>

The Donor Committee promotes enterprise development in developing countries. It provides a forum in which member agencies can exchange information about their programs and lessons learned.

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.

Focal Point for Rural Development, Swiss Agency for Development and Cooperation (SDC)



<http://www.sdc-ruraldevelopment.ch>

An on-line "house" in which to share knowledge, to develop common visions, to debate issues, to confront theoretical knowledge with field reality in order to be more pertinent and more supportive of partners' initiatives leading to improved rural livelihoods.

The Global Value Chain Initiative



<http://www.ids.ac.uk/globalvaluechains/>

This initiative is 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.

GTZ Private Sector Promotion



<http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/privatwirtschaft/870.htm>

The GTZ private-sector promotion department focuses on competitive, functioning industries and access to service provision, business associations, and business promotion agencies, working with the private sector as a driver of economic growth and poverty reduction.

Inter-American Development Bank (IADB), Sustainable Development Department (SDS)



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.

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, Market Development Resources: A Guide to Enterprise Development



<http://www.seepnetwork.org/marketdev>

The SEEP Market Development Working Group's online resources and guide to market development. Hosts occasional on-line discussions.

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.

United States Agency for International Development–MicroLINKS



<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>

The WRI Development Through Enterprise NextBillion.net site brings together business leaders, social entrepreneurs, NGOs, policy makers, and academics that want to explore the connection between development and enterprise. The site offers a newsroom, a database of activities, a list of related events, and information on past conferences.

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