

Facilitating Business Linkages - Experience from the Field

Presentation
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**Deloitte
Emerging
Markets**



Presentation Agenda

- I. Background
- II. Business Linkage Programs – 3 Models
 - Forward Linkage through Producer Group Formation
 - Backwards Linkage from a Lead Firm
 - Business Linkages through Industry-Level Coordination
- III. Facilitating Business Linkages – 5 Rules to Remember
- IV. Challenges for Discussion

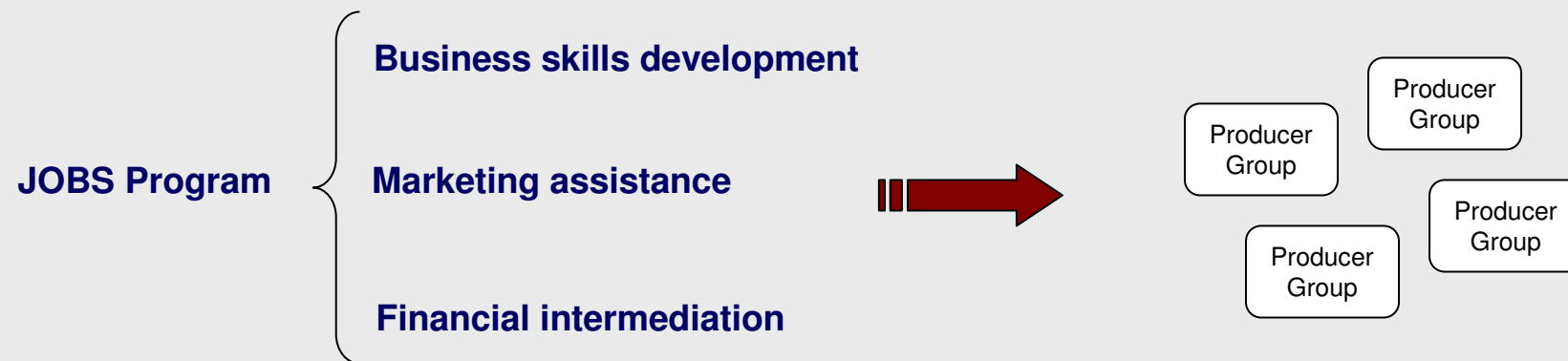
I. Background

Business Linkages and MSE Growth

- Why business linkages?
 - 1)“Lack of market access” is a fundamental constraint to growth
 - 2)Linkages enable the flow of critical services through embedded arrangements
 - 3)Linkages enhance a product’s quality and marketability through common production standards
 - 4)Linkages strive for outreach among MSEs by leveraging “producer groups”

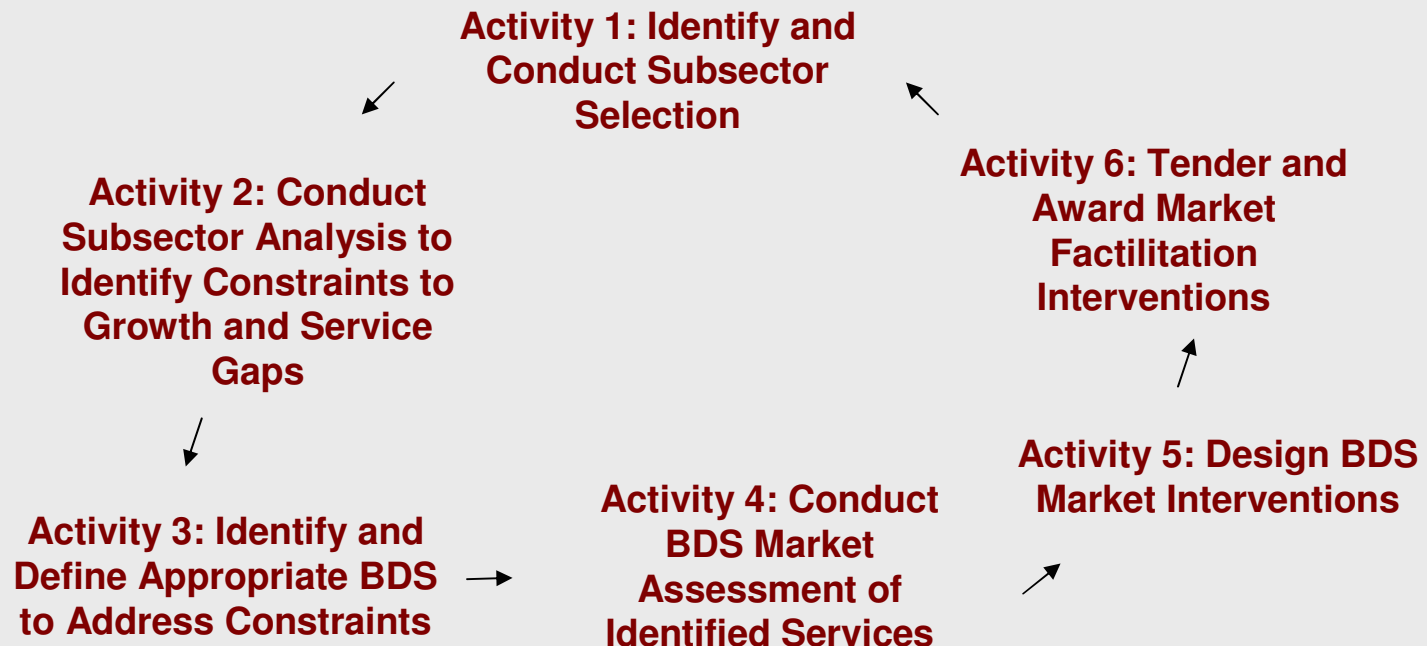
Two Programs from the Field

- *Bangladesh JOBS Program* – Integrated approach to development



Two Programs from the Field

- *Kenya BDS Program* – Sub-sector based approach to BDS market development



Presentation of Three Models

- Forward linkage through producer group formation
- Backwards linkage from a lead firm
- Business linkages through industry-level coordination

II. Business Linkage Programs – 3 Models

Model 1 - Forward Linkage through Producer Group Formation

Bogra Handicrafts Association
(JOBS Program)

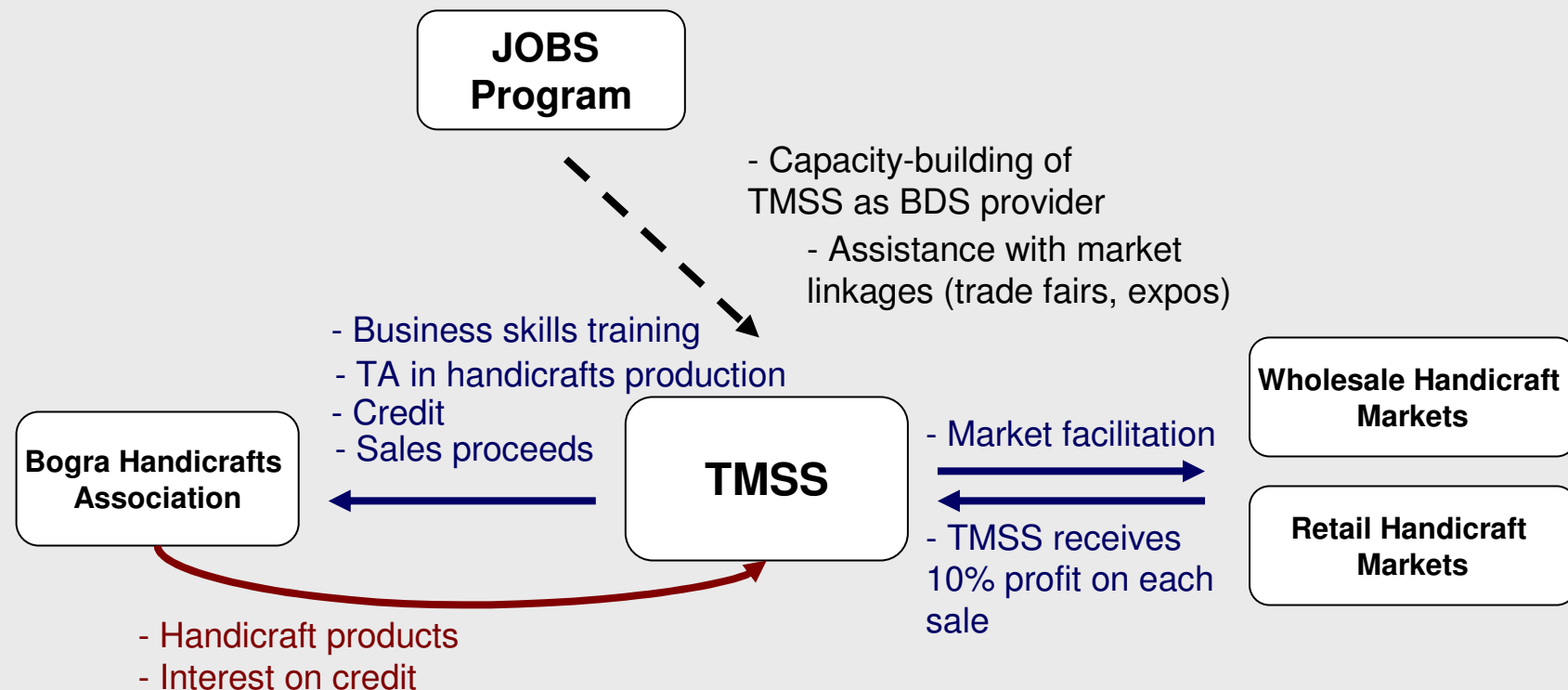
Background Linkage through Producer Group Formation

- Background
 - Distorted market
 - Heavy presence of rural-based NGO/MFIs
 - TMSS is a national level NGO/MFI “to uplift the socio-economic condition of neglected women”
 - Presence in 23 Districts (2,726 villages)
 - Network of 104 branch offices and 4,820 staff
 - 400,000 beneficiaries under 29 categories of projects

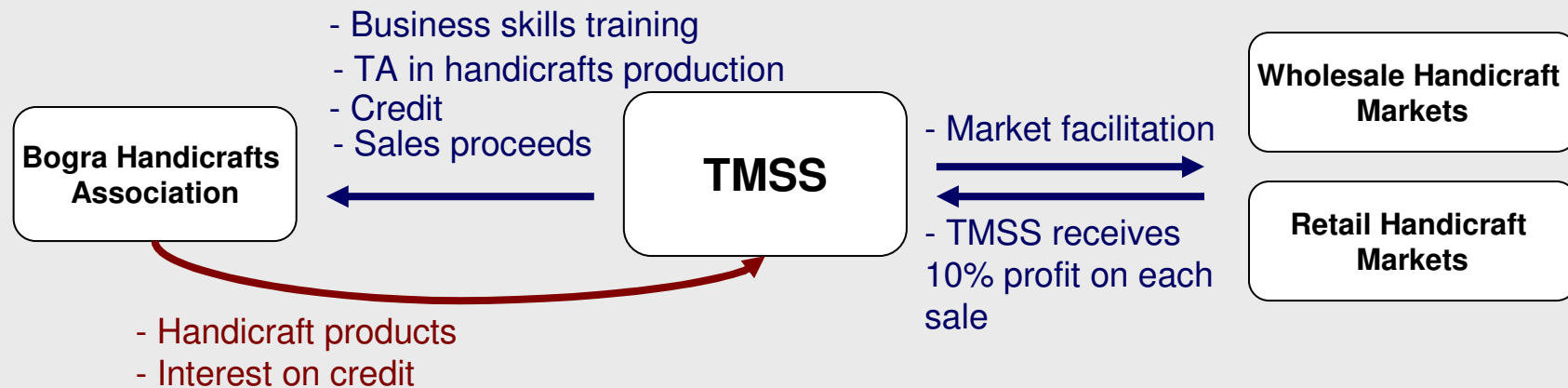
Forward Linkage through Producer Group Formation

- Approach
 - Leverage the network of TMSS and develop a producer group from their base of micro-credit clients
 - TMSS pre-selects 25 of their micro-credit clients deemed “ready for graduation”
 - JOBS builds capacity of TMSS to provide business management and technical skills training
 - JOBS assists TMSS to provide market facilitation (price setting, negotiation, quality control, trade fairs and marketing) and increased levels of credit

Forward Linkage through Producer Group Formation (facilitation)



Forward Linkage through Producer Group Formation (post-facilitation)



Forward Linkage through Producer Group Formation

- Results
 - + Business linkages established with a number of wholesale and retail handicrafts markets
 - + Increased incomes of US\$58 per month
 - + Increased technical and business skills of group
 - Dependency relationship with TMSS as primary credit and BDS provider, and market intermediary
 - Increased debt load on participating MSEs
 - Distorted business mindset of producer group

Model 2 - Backwards Linkage from a Lead Firm

East African Growers, Ltd.
(Kenya BDS Program)

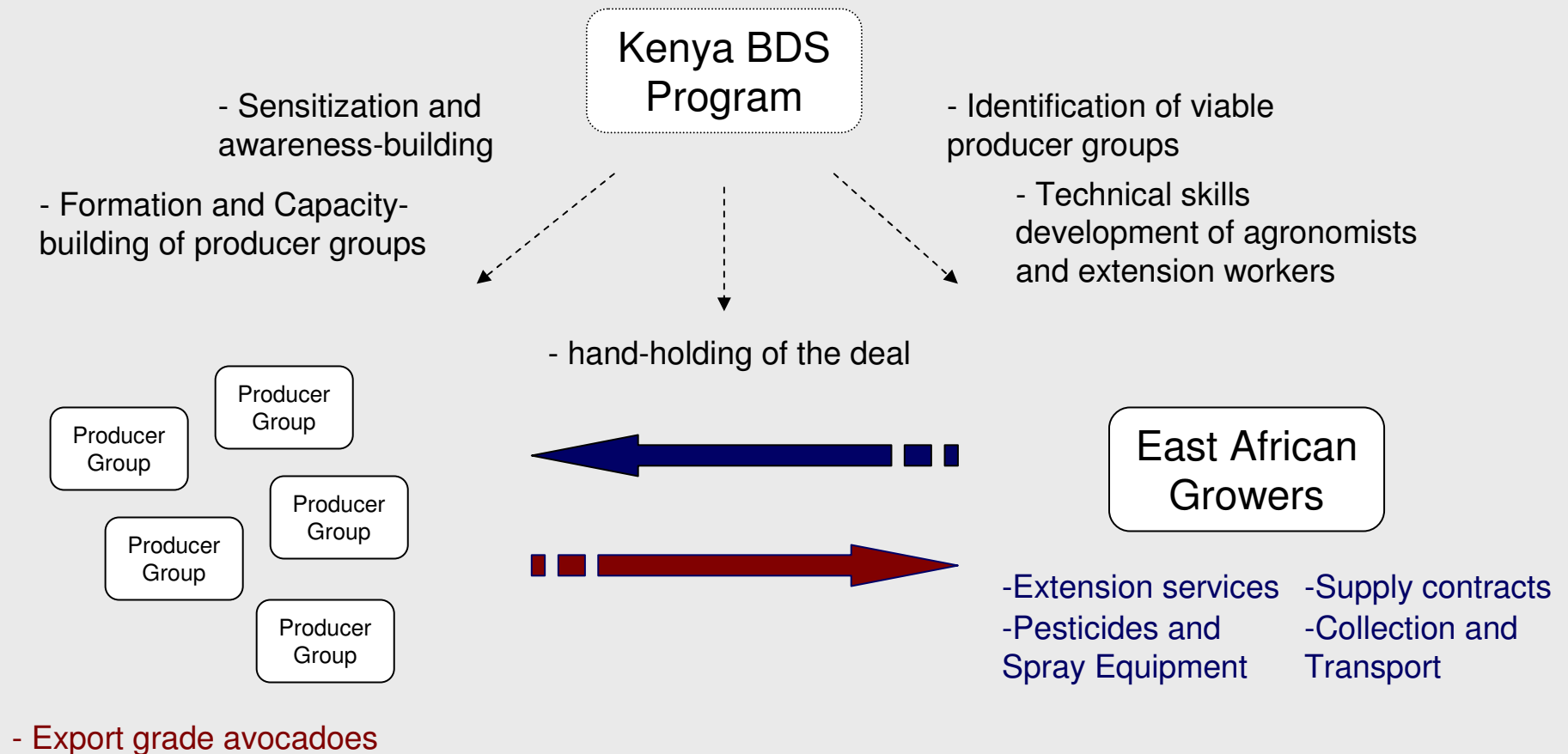
Backwards Linkage from a Lead Firm

- Background
 - East African Growers (EAGA) is a large Kenyan-based exporter of horticulture products
 - Strong demand of Haas and Fuerte variety avocados in Europe exceeds Kenyan supply
 - Increasing trend towards “outgrower” schemes
 - Collapse of avocado industry in early 90’s has left farmers without markets = heavy broker exploitation

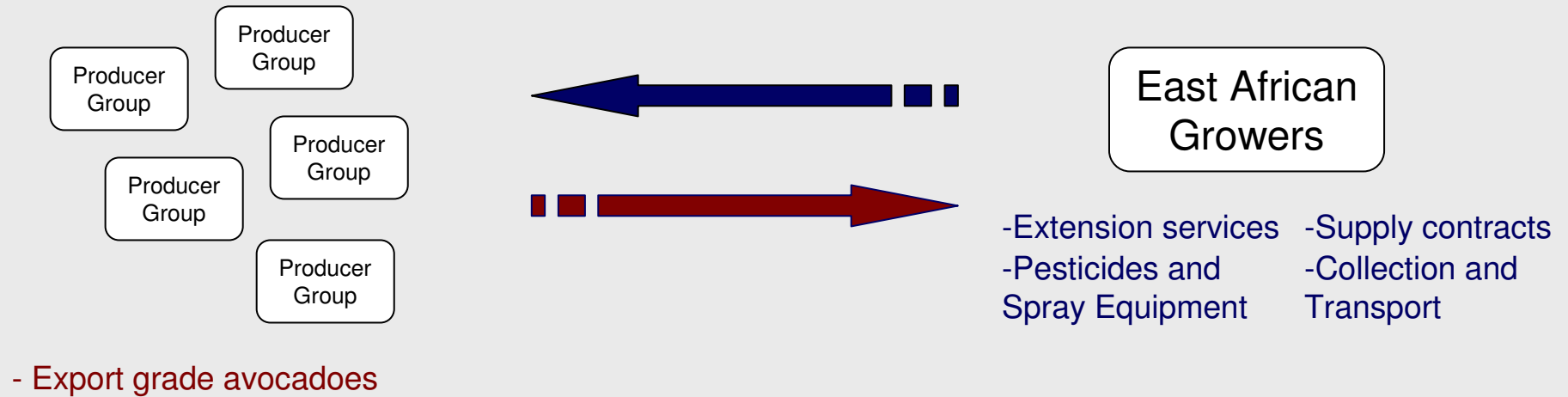
Backwards Linkage from a Lead Firm

- Approach
 - Kenya BDS assists EAGA go “down-market” through assistance with identification, formation, and capacity-building of producer groups
 - Kenya BDS provides capacity-building of EAGA agronomists and extension officers
 - EAGA provides crop husbandry TA, pesticide application, and collection and transport services through embedded service arrangements
 - EAGA provides guaranteed market through supply contracts with committed groups

Backwards Linkage from a Lead Firm (facilitation)



Backwards Linkage from a Lead Firm (post-facilitation)



Backwards Linkage from a Lead Firm

- Results
 - + Guaranteed market for farmers and increased incomes (4-5x price of brokers)
 - + Increased access to business services among 1,000 farmers (extension services, inputs, collection)
 - + Activity is purely commercial, and based upon “bottom-line” incentives between producer and buyer (US\$6.70 EAGA:US\$1 Kenya BDS)
 - Producer groups are fragile and brokers remain aggressive

Model 3 – Business Linkages through Industry-Level Coordination

Kenyan Passion Fruit
Industry
(Kenya BDS Program)

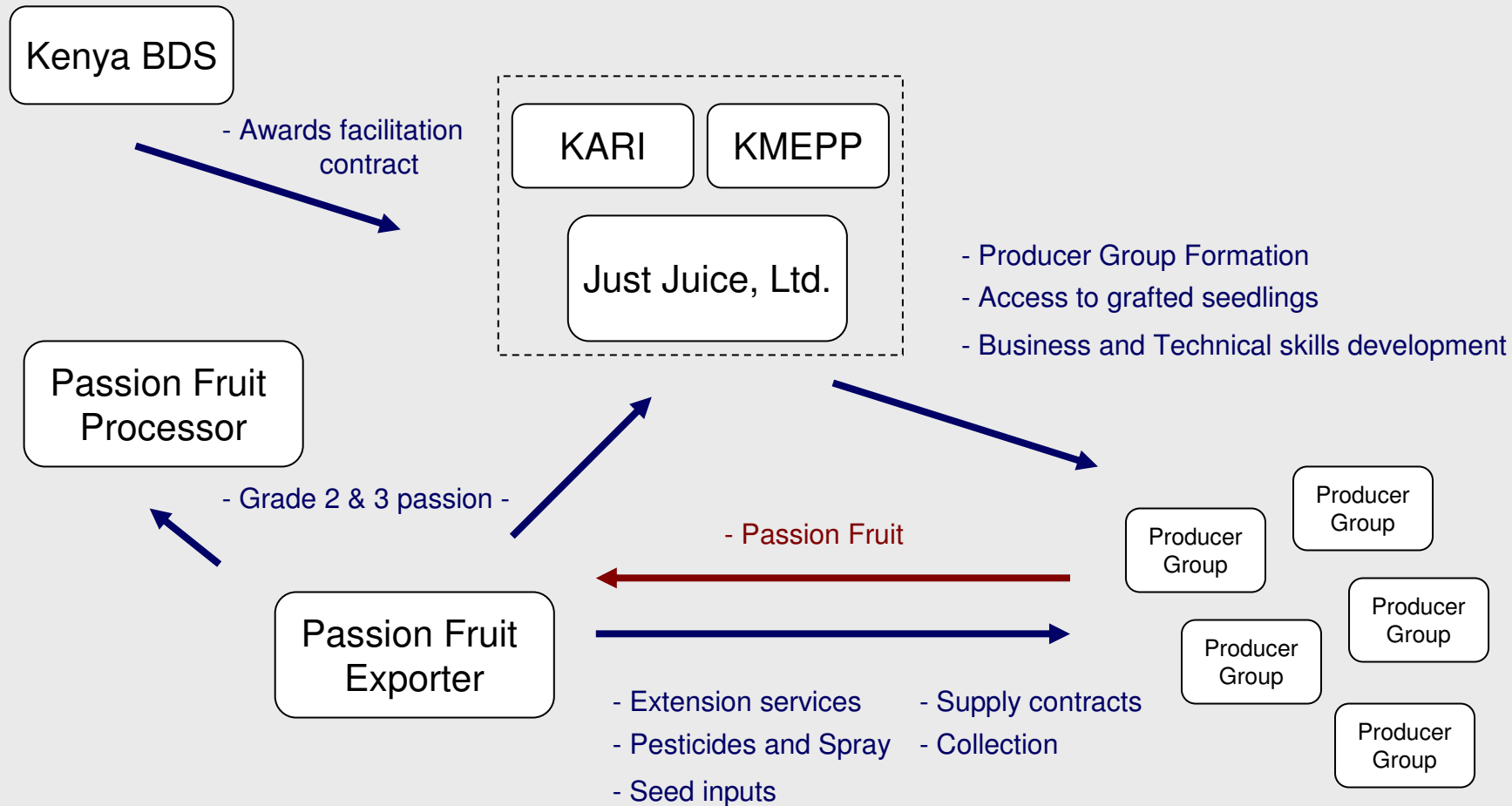
Business Linkages through Industry Level Coordination

- Background
 - Processors and exporters facing supply constraints of purple passion
 - Smallholder farmers selling primarily to brokers and spot-markets
 - Kenya BDS issued a tender for facilitation
 - Intervention awarded to a consortium consisting of a private sector processor (Just Juice), a local NGO (KMEPP), and a government-sponsored research institution (KARI)

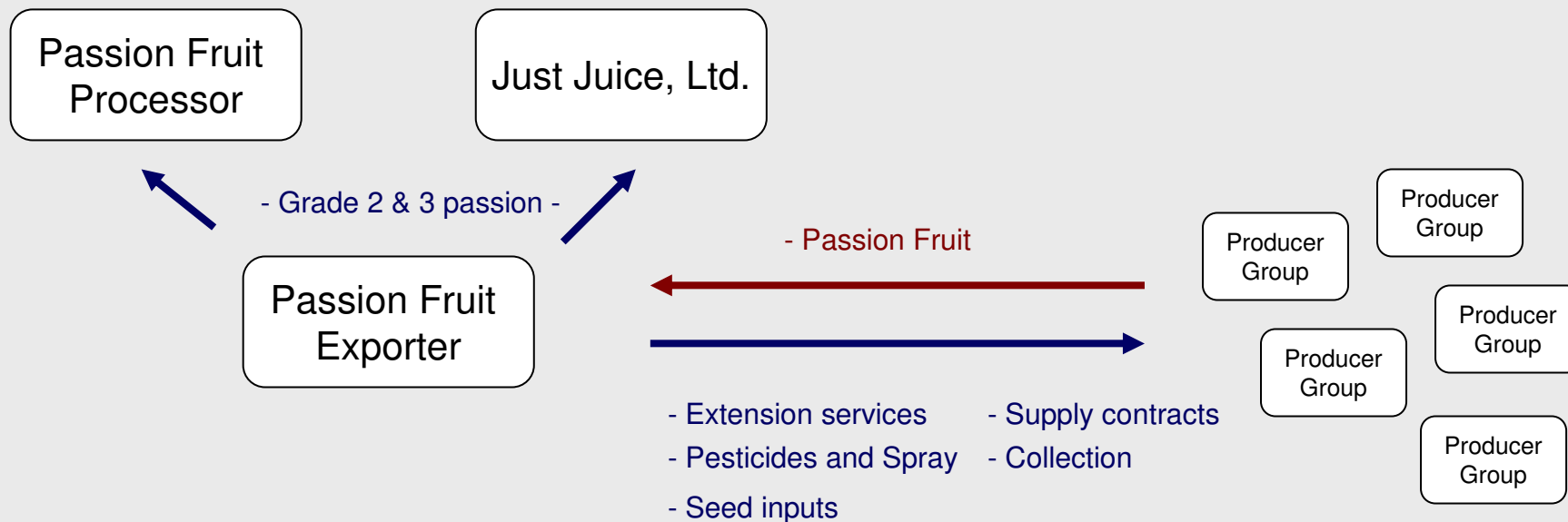
Business Linkages through Industry Level Coordination

- Approach
 - KMEPP to assist with formation and capacity-building of producer groups
 - KARI to provide technical assistance in the creation of commercial demonstration plots and nurseries, and capacity-building of extension officers
 - Just Juice to provide the market, horizontal linkages with other lead firms, and ongoing extension services to producer groups

Business Linkages through Industry Level Coordination (facilitation)



Business Linkages through Industry Level Coordination (post-facilitation)



Business Linkages through Industry Level Coordination

- Results
 - + Horizontal linkages brokered at industry level between 1 exporter and 2 processors to date
 - + Guaranteed market for farmers for both domestic and export grade passion fruit
 - + Activity is commercial and based upon “win-win relationships
 - Initial suspicion among farmers of a private sector processor leading the program

III. Facilitating Business Linkages – 5 Rules to Remember

Facilitating Linkages – 5 Rules to Remember

- Gain a Firm Understanding of the Supply-Chain Dynamics
- Avoid Becoming “Part” of the Supply Chain
- Investment and Risk must be Shared
- Maintain Commercial Signals and a Business-like Approach
- Follow a Clear Exit Strategy

IV. Challenges for Discussion

Challenges for Discussion

- Which is the better linkage facilitator – a private sector firm or NGO?
- By working with specific private sector firms are we “picking winners?”
- Can the business linkage (network brokering) role be commercialized?
- Should it be commercialized?