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BUSINESS LINKAGES AND PRODUCER GROUPS IN BANGLADESH

OPTIONS FOR RURAL MICROENTERPRISE DEVELOPMENT

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Introduction

A growing body of evidence suggests that unless microenterprises are active participants in the formal economy and integral links within a commercial supply-chain, opportunities to build wealth and break the cycle of poverty will remain elusive. This fact is not lost on microenterprises, as “lack of market access” is frequently identified as one of most important constraints to growth. However, with limited access to credit or working capital, market knowledge, and production skills, microenterprises are faced with the decision to enter new markets blindly, or produce what is already known locally. Microenterprises are not in a position to accept the high risks of entering a new market without reasonable assurances of making money. At the same time, not taking the risk forces them into a cycle of production that eliminates opportunities for specialization, innovation, and achieving economies of scale – i.e., adding value that generates increased income. The situation is even more dramatic for microenterprises active in rural areas where higher transaction costs and even more limited market information flows create daunting barriers for market entry.

In response to this situation, donor practitioners have understood for some time that if microenterprises organize their production, information gathering, and marketing efforts they can mitigate these individual risks. Specifically, by organizing into producer groups, microenterprises are often able to:

- improve their access to and reduce the cost of raw materials through bulk-purchasing;
- increase their efficiency by sharing production skills and resources;
- enhance their product’s quality and marketability through common production standards and market driven product specifications;
- increase access to available financing;
- obtain critical business development services (BDS) through embedded or fee-for-service mechanisms; and
- improve their market position by having the quality, quantity, and types of products that multiple buyers demand.

Although the benefits are many, microenterprises are sometimes risk averse and suspicious of any activity that may infringe upon the sovereignty or internal operations of their business. This is particularly evident in saturated markets, where intense competition for limited contracts drives prices down and inhibits economic growth. Microenterprises with limited economic options often develop a predatory/opportunistic competitive behavior, whereby any activity that remotely implies a limitation on their ownership rights is ill received.

To limit the suspicion, risks, and potential pitfalls, practitioners have been increasingly active in designing interventions that focus on bottom-line results, and activities that serve to diversify product-marketing channels. These include interventions that: 1) organize producer groups on commercial foundations that leverage financial benefits and encourage cooperation; 2) facilitate business linkages as a competitive, fee-based BDS that delivers on-going economic opportunities to microenterprises; and 3) facilitate robust business relationships that are commercially grounded, result in exchanges of technical assistance and information, and achieve equitable benefits throughout the market chain.



The Role of Producer Groups & Business Linkages in BDS Market Development

This paper explores the role that producer groups and business linkages can play in developing commercial BDS markets for microenterprises. The Committee of Donor Agencies for Small Enterprise Development has underscored the importance of Business Development Services (BDS) for the sustained growth and competitiveness of micro-, small, and medium enterprises (MSMEs). Through the provision of essential technical and management skills, market access, information, technology development, and business linkages, MSMEs are better equipped to achieve increased productivity as well as access to real commercial market opportunities.

The ongoing challenge among donors has been how to most effectively facilitate indigenous commercial markets for BDS that benefit MSMEs. Inspired by the Guiding Principles for Donor Intervention,¹ the market development approach characterizes BDS as largely “private goods,” which may be offered as fee-based services if appropriately designed, priced, and delivered. Under this approach, the role of donor practitioner has shifted to one of facilitatory. Rather than provide business development services directly to the MSME, the donor practitioner facilitates BDS market development through a combination of interventions to both stimulate and build the capacity of demand and supply. Due to limitations in size, as well as physical distance from central points of commerce, rural-based microenterprises face substantial barriers to accessing both product and service markets.

To address these barriers faced by microenterprises and to develop BDS markets, the USAID-funded Job Opportunities and Business Support (JOBS) Project in Bangladesh developed a number of different approaches that focus on organizing and linking microenterprises to potential product and service markets.

The following paper examines three of these strategies. It represents one in a series of technical notes, funded by USAID, aimed at highlighting innovations in developing BDS markets for the smallest of firms: microenterprises. Based on examples derived from the JOBS Project, the paper compares strategies across six measures: rationale for approach, facilitatory role, service delivery and payment mechanism, microenterprise position, exit strategy and sustainability, and impact. These measures are defined below:

- ***Rationale for Approach*** – A BDS facilitatory must operate flexibly, and leverage the appropriate local actors to maximize impact, outreach, and sustainability. The JOBS Project collaborated with both public and private sector organizations in the formation of producer groups² and business linkages. An assessment of the underlying thinking for each approach is important to understanding the context in which an intervention is designed.

¹ These guidelines were developed by Committee of Donor Agencies for Small Enterprise Development and published in 2000.

² For purposes of this paper, “producer groups” are defined as individuals engaged in producing similar products that are organized to achieve economies of scale and production or marketing efficiencies.



- **Facilitatory Role** – Facilitatory-led interventions can vary in terms of invasiveness and levels of support. The role of JOBS ranged from linking microenterprises to multiple buyers and service providers with minimal intervention and limited subsidy, to direct engagement in service delivery with a heavy subsidy. This paper assesses these different roles assumed by facilitatory, and the associated implications.
- **Service Delivery and Payment Mechanism** – The type of BDS offered, the characteristics of providers, and the method of service delivery and payment are all critical factors to understanding a BDS transaction. The JOBS Project tested a number of delivery mechanisms with varying degrees of success. The paper assesses the utility of these approaches for building strong support services as opposed to reinforcing donor dependent relationships.
- **ME Position** – Linking microenterprises to formal marketing chains or subsectors carries a number of risks, especially if the microenterprises are highly dependent upon one lead firm. The paper explores strategies used by each of the three approaches in handling these risks.
- **Exit Strategy/Sustainability** – A donor intervention must have a clearly defined exit strategy to minimize distortion, while simultaneously supporting specific long-term, commercial development objectives. Under JOBS, the sustainability of the different approaches used to develop producer groups and business linkages is contingent upon a number of key factors. These relationships will be discussed to assess the risks and opportunities of the different approaches.
- **Impact** – Along with sustaining the benefits, the breadth and depth of the intervention’s impact on the rural microenterprise sector is critical. Impact is a critical indicator to assessing the effectiveness of JOBS’ strategies for strengthening the performance of microenterprises.



The Jobs Project

JOBS is a US\$11 million USAID-funded job creation and enterprise growth activity that has been operating in Bangladesh for the past five years. The Project has adopted an integrated approach to development, in which microenterprises are organized into producer groups, and provided a combination of business skills development, financial intermediation, and marketing assistance. The three approaches used by JOBS are represented by the following examples:

1. The Bogra Handicrafts Association, a women's handicrafts producer group that was formed under the umbrella of a non-governmental organization/microfinance institution (NGO/MFI) that provides credit and business development services to the group. Members of the association have enjoyed increased income, while the NGO/MFI serves as the primary BDS provider, financial intermediary, and market broker;
2. The Modhupur Pineapple Association, a group of pineapple farmers that were formed from the ground up based on the potential of the product that they were already producing. The association is self-managed and has acquired access to multiple market channels; and
3. The Shafipur and Mirpur Producer Groups, clusters of microenterprises that were formed through forward and backward linkages. Producer groups within the footwear industry acquire BDS and product inputs on an embedded basis through multiple lead footwear firms.

Example 1: The Bogra Handicrafts Association³

Rationale for Approach: Stemming from the pioneering work of Grameen in 1976, Bangladesh has experienced a significant growth and presence of micro-lending institutions. The extensive network of NGO/MFIs that have evolved provide outreach to the most rural and difficult-to-access areas, with direct ties to the microenterprise sector. Recognizing this advantage, the JOBS Project targeted NGO/MFIs to leverage the relationships established among rural MEs.

Thengamara Mohila Sabuj Sangha (TMSS), a national level non-governmental women's organization based in Bogra, was identified as an effective partner due to its extensive outreach and long-standing presence among rural microenterprises in the Bogra community. The mission of TMSS is grounded in a public sector mentality, to "uplift the socio-economic condition of the neglected women of the rural areas." This goal is achieved through social and humanitarian activities, including family planning, health, human rights, skills development, income generating activities, and microfinance. At present, TMSS is working in 23 Districts, which includes 108 Thanas and 2,726 villages.⁴ A total of 400,000 beneficiaries are included under 29 categories of projects, which are administered through a network system of 104 branch offices, 18 area offices, and six zonal offices.⁵ The administrative structure includes

³ Excerpts of this section taken from Knopp, David. "JOBS Assessment," technical report prepared for the USAID Office of Microenterprise Development, Washington, D.C. May 2002

⁴ Bangladesh is divided six Divisions(zone) such as Dhaka, Chittagong, Rajshahi, Barisal, Khulna, and Sylhet. The country is further divided into 64 Districts and 464 Thanas..

⁵ Thengamara Mohila Sabuj Sangha (TMSS), Annual Report 2000, Gokul, Bogra.



1,829 staff and 3,000 “paid” volunteers. TMSS covers 45% of operating costs through income generating activities and member savings, with the additional 55% from international donor and Government of Bangladesh funds.

JOBS methodology was to leverage the network of TMSS and develop a producer group from their base of microcredit clients. In coordination with the Project, TMSS proactively selected 25 of their micro-credit entrepreneurs, whom they designated as prepared for “graduation.” This term refers to a client ME that is ready to receive increased levels of credit from the NGO/MFI, usually in excess of 10,000 – 15,000 taka.⁶ After the individual microenterprises were identified, the Bogra Handicrafts Association was formed as a women’s handicraft producer group in September 2001.

Facilitatory Role: As facilitatory, JOBS assisted in transferring technology and support services to TMSS in forming the Business Association. Services included awareness building and guidance on the concept of producer group formation, as well as the initial “training of trainers” to TMSS in enterprise development and business management. The TOT was provided under a cost-sharing arrangement, with JOBS providing 45% of the cost for materials and participant compensation. Through German technical assistance, additional donor support was provided to TMSS in enterprise development training through the Competency-based Economies through Formation of Entrepreneurs (CEFE) model.

Service Delivery and Payment Mechanisms: Once the appropriate staff were trained, TMSS delivered the six day course on enterprise development and business management to the producer group. JOBS subsidized 71% of the cost, while 13% was contributed by TMSS. The cost-sharing contribution of microenterprises was 16% within the producer group. Once training was received, producer members were able to access increased levels of credit from TMSS. Skills training was also provided, with contributions from JOBS, TMSS, and the recipient microenterprises at 39%, 13%, and 48% respectively. Cost sharing has also taken place for the attendance in various trade fairs and exhibitions. Follow-up training and counseling to the producer group by JOBS staff has been provided free of charge.

TMSS sells 70% of Bogra Handicrafts Association’s products in the retail market, and 30% are sold in the wholesale market. Quality control, price setting, market intermediation, and credit are all provided by TMSS. TMSS captures a 10% profit on each sale, while producer group members receive 18 – 23% in addition to the material and labor costs for their product. In exchange for the handicraft products, TMSS provides some embedded technical assistance in product design and manufacturing skills.

Microenterprise Position: TMSS serves as the primary market broker, business service provider, and financial intermediary for the Bogra Handicrafts Association. Although this has provided some immediate benefit to the microenterprises, the producer group has become fairly dependent upon TMSS for all aspects of the business. With the microenterprises relying on varying degrees of assistance from production to final sale, the NGO/MFI has replaced many

⁶ US\$1 = 57.90 Bangladeshi takas



of the activities typically provided by the private sector. This relationship with TMSS, coupled with subsidized and direct technical assistance, has the potential to distort the commercial viability of the producer group's product.

Exit Strategy/Sustainability: The sustainability of the NGO/MFI approach is largely tied to the long-term viability of TMSS. TMSS is a large NGO/MFI, offering a wide range of public goods such as healthcare, education, and human rights advocacy activities, which must be supported through an extensive administrative and institutional structure. TMSS covers 55% of its costs with the additional assistance through donor and Government of Bangladesh funds. While TMSS has been successful in obtaining significant funds from donors, any decrease in or substantial withdrawal of donor funds could result in a retrenchment in services offered. Should this happen, the producer group members of the Bogra Handicrafts Association will be faced with new and difficult challenges, as they have been shielded from most of the realities of the private sector handicrafts market. Current plans are for TMSS to scale down cost-sharing with the producer group to 50%, with an eventual phase out of TMSS assistance. It will be interesting to track the success of the producer group after the subsidies have terminated.

Impact: When interviewed, microenterprises were enthusiastic about the program, noting that members share enhanced quality and consistency of their products through JOBS assistance, and have enjoyed better living conditions and social benefits through interaction among women within the community. As a result of the program, income has increased on average by 1,000 taka per month since they began producing as a collective group. This figure does not include, however, the material expenses, subsidies, or follow-on technical assistance provided by TMSS and JOBS. Should the market intermediation for producer group members suddenly end, it is possible incomes may decrease. Moreover, as the program was rationalized to provide for greater levels of micro-credit, the debt load on the microenterprises has been increased. As one group member explained, a large portion of the additional income has gone to pay for the larger loan repayments, which has limited opportunity for purchasing additional skills training. Such factors must be considered when assessing overall impact.

Example 2: The Modhupur Pineapple Association⁷

Rationale for Approach: The concept for the pineapple association began in January 2001, through initial discussions between JOBS and Abdul Malek, a prominent farmer in Modhupur.⁸ After some follow-up market analysis, it was revealed that there existed a supply of pineapple farmers in the region that were selling independently in low-volume. Farmers were challenged by expensive inputs, low production capacity, and lack of market access. In addition, the productivity of MEs was limited due to shortages in capital.

⁷ Excerpts of this section taken from Knopp, David. "JOBS Assessment," technical report prepared for the USAID Office of Microenterprise Development, Washington, D.C. May 2002.

⁸ Lai, Chung. "JOBS' Integrated Approach." Prepared for JOBS/IRIS, January 2002.



JOBS analysis revealed the existence of a few commercial banks, which operated within a social mandate, that would be willing to finance a producer association. A target group of producers had been identified, and the environment was favorable for development of a producer association.

Facilitatory Role: During the first one-year period, JOBS assistance to the Modhupur Pineapple Association consisted of institutional credit, skills training, and support with producer group formation and market brokering. JOBS facilitated access to working capital through the Social Investment Bank Limited (SIBL) based in Dhaka. Through an inter-banking relationship with Sonali Bank, a rural branch near the village was able to disburse SIBL's funds for a small management fee. The Modhupur Pineapple Association was formed in March 2001.

JOBS staff simultaneously met with small growers to discuss the benefits of collective organization. A total of 19 visits were made to the Association during a 16 month period, in which direct services were also provided related to marketing strategies, association formation and development, training on preparation of business plans and record keeping, and mixed crop cultivation (i.e. chili, ginger, turmeric, etc. together with pineapple).

At the same time, JOBS facilitated market access with PRAN, a large agriculture processor in Dhaka, which led to the first sales contract. Through the initial PRAN sale, pineapples were to be bought at 5.3 taka as compared to 2.6 taka on the local market. A deed of agreement was signed between the Association and PRAN. At the time of delivery, the Association refused to supply their products because: 1) three to four week delays in payment from PRAN would result in cash flow problems for the association; 2) price at the time of delivery was offered about 15% less than the market price; and 3) PRAN would only accept pineapples of a particular size, weight, and color, with the unacceptable pineapples to be sold in the local market. For these reasons, the Association refused to supply to PRAN and decided to extend their product to various spot markets.

As the following text details, producer group formation in the Modhupur Pineapples Association has resulted in improved product quality, increased quantity, and an overall strengthened position within the market. Pineapples have been selling at nine taka per pineapple, a rate three times higher than the local market price.

Service Delivery and Payment Mechanism: Initial success of the Association had a multiplier effect, which resulted in the establishment of 13 additional producer groups within the network. The original association now brokers market linkages for all 13-member producer groups. For a 10% commission, the central association negotiates pricing, provides technical assistance in production, and facilitates transportation. Additional services such as security watchmen for the pineapple fields are also provided.

Microenterprise Position: Microenterprises within the Association are independent, however, through active coordination they have enjoyed a strengthened position in the market. The Association is member-driven, and managed by a nine member executive committee



which is elected annually. Each executive committee member specializes in a particular function such as marketing information, selling, price negotiation, input supply, ag-extension services, etc. The original core association consists of 21 independent farmers. There are two types of members. General members that share in profit, and special members that make capital investments in the association (up to 50,000 taka). Funds will be used to procure seeds and purchase land in the name of the Association.

Exit Strategy/Sustainability: JOBS has left the Modhupur Association to operate independently, and provides limited technical assistance as needed. Market linkages have been made in Chittagong, Sylhet, Dhaka, and Rajshahi, however, the Association has yet to develop long term relationships with specific buyers or nurture embedded service relationships. Price quotes are accessed through the telephone, and pineapples are sold at spot-price offers. SIBL is considering financing the development of a processing plant for the Modhupur Association next year.

Impact: Through JOBS assistance in producer group formation, the association now employs a total of 32 full time wage employees, with the lowest monthly salary of 1,621 taka per employee. The Modhupur Association currently has a total network of 261 members. Through JOBS assistance, each of the 13 producer groups has increased from 30 to 70 acres, resulting in a total acreage increase of 520. The Association is currently operating on a totally independent basis, and has acquired specialized training, inputs, market linkages, and commercial capital on its own accord. This past April, the Association received its third loan from SIBL in the amount of 1.45 million taka (\$US 25,275). The additional funds will enable members to build upon existing operations, purchase additional land in the name of the association, and expand into additional crops such as banana. Members also expressed interest in moving into papaya, lemon, and garlic, and have indicated a willingness to pay for technical assistance. In only a three month period, average sales per member within the Association has risen from 1,853 taka in June 2002 to 22,291 taka in August 2002.

Example 3: The Shafipur And Mirpur Producer Groups

Rationale for Approach: As part of the export-oriented focus, JOBS selected the footwear sector as having an opportunity for high growth potential. Strategy development activity was launched with an initial workshop, during which time the initial contact was made with Apex Footwear, Ltd. (hereafter referred to as Apex), a footwear-producing firm started in 1990.

JOBS has collaborated with multiple lead firms in the footwear industry, and the experience with Apex was indicative of their approach. Apex, the largest shoe producer for export, was facing numerous constraints that were affecting competitiveness abroad. The firm was targeting the export market for high-value, hand-made footwear that require specialized technical skills among workers. This required a production capacity that could handle fluctuations in contract orders, as well as provide the necessary quality control, skilled manpower, and timely delivery as needed. Apex was also well aware of the stiff competition in the export market, and realized that footwear must be tailored to the changing trends and styles for a particular clientele. Finding the appropriate footwear experts to provide training in specific technical designs was difficult. Apex was looking to expand but lacked the capacity and know-how to



more effectively penetrate the export market. Apex applied for assistance from JOBS and began formal collaboration with the Project in July 1999.

Facilitatory Role: JOBS has followed three primary activities in facilitating backward linkages with lead firms. These involve: 1) a participatory approach to vision building; 2) capacity building actions based on shared targets; and 3) technical assistance with the cluster development process. With lead firms such as Apex, JOBS assistance has focused on the participatory approach to vision building. As an initial step in producer group formation, it is necessary to build trust among the cluster stakeholders. JOBS provided education and awareness building efforts with Apex, small enterprises, and their suppliers while developing the Mirpur cluster.

As with several of the other lead firms, JOBS provided a series of strategic interventions and direct technical assistance to overcome market constraints. First, JOBS assisted Apex to access and build the skills of 100 new workers for their factory by hiring an Italian footwear specialist. The training lasted six months at a cost of US\$3,700, which was conducted in partnership with local plant supervisors for skills transfer. After training was completed, Apex hired all of the trainees as permanent staff. Apex covered 60% of the total training cost, with the remaining covered by the JOBS Project. Quality-control training was also provided by the “Footwear Design and Development Institute” (FDDI) in India, as well as design development training from a Japanese specialist, in both of which Apex shared 25% of the total cost. For improved market access, JOBS facilitated the participation of Apex in export trade fairs, including the South Africa Footwear Fair in 1999 and 2000, as well as the International Shoe Fair in Japan in 2001. Apex assumed 50% of the total cost of each of these events.

Service Delivery and Payment Mechanism: As collaboration with Apex was taking place, JOBS was simultaneously identifying potential enterprise clusters for backward linkage opportunities. JOBS published a newspaper tender inviting applications from export-oriented footwear firms for possible assistance. In response to the posting, several local producers, including four shoe-producing entrepreneurs (each of which had six to eight employees), contacted the Project for assistance. Through discussions with the entrepreneurs, the Project realized that they were encountering constraints related to production as well as selling on credit. Based upon this contact, JOBS brokered a linkage between the four entrepreneurs and Apex as a potential backward linkage. A small trial order was conducted with Apex, and based upon this successful experience the initial producer group was established.

JOBS provided a skills development training for the Shafipur producer group during the initial formation as new workers were recruited to fulfill the subcontract with Apex. As the group has grown, Apex regularly provides a variety of embedded services to the producer group in exchange for the shoe product, including raw materials, machinery, skills training, quality control and technology services. Apex even purchased land and a production site for the group, which is located across the street from the Apex factory. The Shafipur group has a permanent staff of 80 employees.



Similar services are provided in Mirpur, where another producer group was established through JOBS assistance. Through JOBS facilitation, an initial training was organized to develop the skills of 60 workers for 16 independent microentrepreneurs. Each of these entrepreneurs faced similar constraints related to skills, credit, and production capacity. After a successful trial order facilitated by JOBS, Apex subcontracted the Mirpur group for additional work. Through embedded service arrangements, Apex currently provides the producer group training in quality control, material waste reduction, costing, and bookkeeping. The Mirpur group employs almost 120 workers full time. To date the groups have supplied orders worth \$US 90,000.

Microenterprise Position: The footwear industry in Bangladesh shares a unique level of inter-firm collaboration and “healthy competition,” in which lead export firms not only compete, but often collaborate with each other for larger orders. This loose form of partnership extends to the approach lead firms have taken with microenterprise producer groups. For example, although Apex has made a significant investment in both Mirpur and Shafipur, the firm realizes that economic growth and improved welfare among group members directly relates to stronger business ties and better quality product. Group members also understand that their relationship is based upon commercial terms. As part of this mutual understanding, microenterprises within both the Mirpur and Shafipur groups enjoy the right to be subcontracted by other leading footwear firms, as well as produce directly for local consumption. For example, Mirpur has also produced for the Legacy Footwear Company, helping them fulfill an order of 5,000 pairs of sandals for a buyer in the Middle East. Access to multiple buyers has strengthened the ME’s position within the market.

Exit Strategy/Sustainability: Apex has a production capacity of 8,000 pairs of shoes per day, and has contracted for high-end markets in Italy, Japan, France, Germany, and the United Kingdom. Future plans are to expand into the US market, and develop contracts with leading industry brand names. Lead firms continue a high level of inter-firm collaboration, in which large production orders, as well as costs and representation at international trade fairs are shared. The Mirpur and Shafipur producer groups are not dependent upon one buyer, having diversified their client base between the leading footwear firms and local market. Based upon the success and growth of Apex, JOBS has no plans for further investment, training, or direct support for Apex and other lead firms.

Impact: During 1997-99, the total sales of the producer group in the Mirpur cluster were 950,000 taka. In the first three months after the linkage with Apex they earned 400,000 taka on Apex orders alone. As a result of the forward linkages, 86 additional workers were hired in the Mirpur Cluster. During 2000-2001 they earned 2,300,000 taka combined with other orders, which represents a 242% increase in their individual income. In the Shafipur cluster, the individual income of the entrepreneurs went up almost 196% after development of the lead firm linkages, while 30 additional workers were hired.



Comparative Analysis

Each of the strategies has pursued a different approach in the identification and formation of producer groups, as well as facilitating linkages to the formal market. The matrix below summarizes the performance of each example across the measures against which they were assessed.

Summary Analysis of producer Group Strategies

APPROACH	FACILITATORY ROLE	DELIVERY AND PAYMENT MECHANISM	ME POSITION	EXIT STRATEGY AND SUSTAINABILITY	IMPACT
Bogra Handicrafts Association - Market Access through NGO/MFIs	Strong - JOBS provided cost-sharing TOT and technical assistance through TMSS, which provides direct services to pre-selected producer group MEs.	Strong - TMSS provides assistance in quality control, price setting, market intermediation, and credit.	Reduced - Dependency relationship under TMSS as primary credit and BDS provider, as well as market intermediary.	Undetermined - ME producers within the association have acquired necessary skills for production, however remain heavily reliant upon NGO/MFI.	Fair - Producer group members have increased incomes by 1,000 taka per month on average.
The Modhupur Pineapple Association - Production Networks through Commercial Finance	Medium - JOBS provided initial awareness activities in cluster-group formation, and limited business services to stimulate business activity as well as loan facilitation.	Light - Core Association brokers market linkages for producer group members.	Fair - Self-elected and managed association of ME producers with commercial focus provides independence with bottom-line focus. Primary focus on spot market offers weakens ME positioning.	Strong - JOBS has backed out of the Modhupur Pineapple Association, which is operating on a commercial basis.	Significant - Modhupur Association shares a network of 261 members. Total increase through Association formation of 520 acres.
The Shafipur and Mirpur Producer Groups - Backward Linkages from a Lead Firm	Light - JOBS provided technical assistance in awareness building and cluster formation, as well as specific skills-development training.	Light - Limited cost-sharing and subsidies involved. Majority of efforts focused upon awareness building and network brokering.	Strong - ME producers receive embedded BDS through commercial linkages, and enjoy access to multiple lead firms and marketing channels.	Strong - ME producers have established market positioning among leading footwear firms, and are operating on a commercial basis.	Significant - 101 new jobs created directly as a result of backward linkages, within individual incomes exceeding 200%.

Example 1: Market Access through NGO/MFIs. NGO/MFIs were originally targeted as network brokers based upon their outreach and network at the grassroots level. As Bangladesh is largely an NGO-driven development culture, it made sense that to move down-market, the Project should leverage an already existing infrastructure. It was envisioned that the NGO/MFIs' knowledge of their clients, coupled with their group lending experience, would assist in the identification and formation of microenterprises into producer groups.

By pre-selecting individuals to receive subsidized credit and training, it is difficult to gauge demand as well as the incentives surrounding formation of the producer group. As credit provider, the NGO/MFI's influence over producer group members has the potential to skew demand signals. NGO/MFIs in Bangladesh are also tasked with a variety of socially oriented services such as healthcare, environment, human rights, and youth empowerment. These services require significant donor and government funds as "public goods," that are typically provided as social welfare for a target group. The charity orientation of the NGO/MFI as



business service provider is inconsistent with the commercial orientation of the handicrafts market. This may have a distortionary effect on the operational culture and business mindset of client microenterprises.

As seen in the example, quality control, price-setting, and market intermediation is all provided by the NGO/MFI. The Bogra Colony is dependent upon an organization that is not commercially viable, which may limit growth opportunities if the producer group remains beholden to the NGO/MFI for credit, training, and market access. Multiple buyers and marketing channels are necessary to provide stronger leverage in price negotiation, new ideas on product designs and consumer trends, as well as the opportunity to pursue embedded service arrangements from lead firms.

Example 2: Production Networks through Commercial Finance. The JOBS approach to the Modhupur Pineapple Association provides an interesting alternative to the NGO/MFI model. As facilitatory, JOBS directed assistance in skills development, credit access, and the initial contact with new markets provided the commercial linkage that Modhupur was able to leverage for increased production. This led to a demonstration effect, which resulted in the growth of an entire village production network. As the Association matured through self-organization, JOBS assistance was phased out, only to provide occasional monitoring and support.

The producer groups within the Modhupur network now work together in common sourcing of inputs, negotiating purchase price, and access to market. However, constraints are still faced regarding the development of market linkages, as well as specific inputs and specialized training in order to expand. A better understanding of the value chain, as well as the importance of timely market information and sustained commercial relationships with processors and buyers would add to the commercial viability of their operation. Future market relationships must be brokered with buyers such as PRAN, which provide less risk and higher growth potential as compared to spot price offers.

Example 3: Backwards Linkages from a Lead Firm. Within the Apex example, the JOBS Project activities facilitated a range of backward linkages with multiple lead firms and enterprise clusters to exploit an existing market opportunity. From the initial market linkage, the relationships facilitated between producer groups and lead firm were based upon private sector incentives. The embedded services provided and follow-on commercial opportunities realized among microenterprises served to reinforce the value of business services and product based skills.

Unique to this model is the Project's use of multiple lead firms through subcontracting arrangements with enterprise groups. Based upon the high level of inter-firm cooperation between the leading footwear companies in Bangladesh, producer groups have the opportunity to be outsourced or subcontracted by multiple lead firms, as well as produce directly for the local market. This maximizes growth potential and economic opportunity for microenterprises, and prevents a price-dependency relationship within the supply chain.



Lessons Learned

Through the examples the following lessons learned may be applied:

- *Facilitating backward linkages from identified lead firms or an existing market opportunity offers strong potential for sustained growth and income generation* – The backward linkages facilitated with lead firms in the footwear industry were in response to an immediate market demand, thus providing instant bottom-line results for producer group members. This success often results in a multiplier effect, and serves to reinforce economic value for all actors along the supply chain.
- *The market linkage broker is a relevant role in certain situations* – While the Modhupur Association has already achieved market access in several markets, a market linkage broker could perhaps assist members to fully exploit market opportunities. For example, commercialization of the market broker role could also be facilitated as a BDS, in which producer associations such as Modhupur avoid the restrictions and fluctuations of spot market sales. Rather than a traditional middleman, an effective broker operates as a private sector business, by pricing product according to demand, and providing value-added sector specific services in quality control, market research, input supply, and technology transfer. Costs for such services may be embedded in product markup.⁹
- *Multiple buyers are usually necessary for a producer group to maximize growth opportunity and fully exploit market potential* – In the NGO/MFI model, the Bogra Handicrafts Association is beholden to TMSS for price setting, negotiation, quality control, and overall market access. This serves to limit growth opportunities as well as the leveraging position of the Association. Under the Apex example, facilitating a subcontracting or outsourcing arrangement with multiple lead firms breaks the price-dependency relationship.
- *Embedded services are critically important within a subsector approach* - As evidenced by the Apex example, embedded services are an important and viable means of delivering BDS to an otherwise underserved rural client base, and serves to overcome serious microenterprises constraints such as lack of cash flow, management capabilities, and market-based production. If based on commercial terms, embedded services not only reinforce value but also serve to leverage and attract service providers as the supply chain matures.

⁹ McVay, Mary. "Microenterprise Marketing: Trends, Lessons Learned, and Challenges." A study by the SEEP Network, funded by CARE International. Washington, D.C. September 1999.



Challenges

The market dynamics involved with the identification and formation of producer groups are complex. From the strategies examined, the following challenges arise:

Is direct technical assistance justified in facilitating market linkages? Within the BDS Market Development Approach, a facilitatory should apply a variety of demand- and supply-side interventions to overcome market inefficiencies and constraints. Direct service provision is typically left to BDS providers as part of a business transaction. The different approaches undertaken by the JOBS project provide new thinking regarding the role of facilitatory in producer group formation and market access.

Under the Modhupur and Apex Footwear examples, the JOBS Project applied direct technical assistance to the lead firms and producer organizations with producer group formation and producer-market linkages. The initial success of these direct interventions triggered a multiplier effect along the supply chain. As Association members and lead firms experienced rapid economic growth, the concept of producer group formation and inter-firm collaboration was reinforced, allowing the Project to phase out assistance. This combination of heavy direct technical assistance to stimulate economic activity, followed by a clearly defined exit strategy once commercial transactions ensued proved effective.

Conversely, the Bogra Handicrafts Association did not receive direct technical assistance from the JOBS Project. Instead, resources were applied to strengthen the capacity of the NGO/MFI as BDS provider, credit lender, and market broker, which in turn provided an integrated package of assistance to the Association. The result of this model is a group of producers that are largely dependent on the NGO/MFI not only for loan repayment, but for both skills development as well as marketing assistance. This relationship could limit future access to both markets and other specific business services, as well as extend reliance upon an organization that is not commercially viable.

Why do the two examples that received direct technical assistance from the Project appear more market oriented? Isn't this contrary to best practice intervention? The difference lies in the market incentives associated with the NGO/MFI, and the limited access to marketing channels provided. As exclusive BDS provider, credit lender, and market broker, TMSS has a vested interest in the future growth of the Bogra Handicrafts Association. As stated earlier, TMSS receives a percentage of profit on sales, as well as interest on credit from the producer group. The likelihood that it will provide the necessary level of independence for microenterprises to fully exploit their production capacity (i.e. multiple buyers, commercial credit, other BDS), and pursue multiple buyers is unclear. Conversely, the producer groups in both the Modhupur Pineapple Association as well as the Mirpur and Shafipur clusters are independently self-managed, have access to multiple marketing channels, and are able to produce and fulfill orders at will.

This presents a challenge for donors, and merits further discussion. Is the market linkage broker an appropriate role for a donor facilitatory, provided a clear exit strategy is followed? What institutional structures exist to facilitate market linkages, and how do we ensure that the independence of producer groups, as well as access to multiple marketing channels is preserved?



How should BDS market development be considered within a market linkage intervention? Although not the primary objective of the JOBS Project, each of the strategies had either a positive or negative influence on BDS market development. What is the effect, and what interventions may be applied by a donor facilitatory?

By building the capacity of TMSS as both a market linkage broker and BDS provider to deliver direct services, the Project was practicing a traditional “supply-side” approach. Picking winners, and artificially building the capacity of a few select organizations to provide subsidized services can have distortionary effects on BDS market development, encourage dependency relationships, and crowd out the development of other commercial players. Moreover, the business services provided initially were limited to business management training, and were presented as part of a formula to eventually develop market access. In other words, BDS was provided to the producer group before commercial activity had been realized around an existing product.

Within the Modhupur Association, some general enterprise development training was initially provided by the Project, and as the Association matured some specialized technical assistance has been acquired on a fee-for-services basis. However for the most part, the presence, availability, and awareness of relevant business service providers is low. The Modhupur Association presents an example where a potential commercial demand exists, however a weak supply and lack of awareness regarding existing supply is a constraint to BDS market development. In this scenario, a facilitatory can play a critical role in enhancing information flows between BDS providers and consumers. A donor facilitatory can also pursue alternative delivery mechanisms for BDS, such as embedded-service arrangements that can be developed through their supplier-buyer relationships. For example, Association growers currently receive training in planting through instructions on the seed bags. An embedded service could be arranged in which the input suppliers offer free training to growers in exchange for seed purchase.

With the footwear industry, JOBS provided initial technical assistance and skills training in coordination with multiple lead firms to develop a cadre of skilled shoe producers for the group. Since then, Apex and other lead firms have realized the benefit of strategic investment in providing embedded forms of BDS to cluster members through backward linkages. As facilitatory, opportunities still exist to commercialize specific business services with lead firms, such as conducting market research and competitiveness strategy, as well as stimulating other supplier-provider links along the supply chain.



Conclusion

As stated earlier, a BDS facilitatory must be able to act in a flexible manner in response to a particular market context. This may involve close interaction with specific local stakeholders, as well as public and/or private sector organizations to maximize sustainability, outreach, and impact. However, each approach will present individual challenges and opportunities that have direct effects on the commercial potential of an intervention, as well as overall BDS market development.

The three strategies implemented by JOBS offer interesting examples in producer group formation. In each of the strategies presented, BDS market development was not a specific goal. In two examples it was necessary for JOBS to provide business services directly in order to “kick-start” producer group formation. However, embedded services have arisen based upon commercial market linkages. In another strategy, JOBS developed the capacity of an NGO/MFI to serve as the primary BDS provider to a producer group. Such activity may present immediate gains among producer group microenterprises, but has the potential of inhibiting the development of commercial BDS providers. In the context of producer group formation, when is it appropriate for a facilitatory to begin thinking about BDS market development? When is the market or sector mature enough to successfully build upon a commercial intervention? These questions merit further discussion and exploration.