

**Business Linkages and
Producer Associations in Bangladesh –
Options for Rural ME Development**

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The purpose of this paper is to examine the formation of producer associations and business linkages as a means of achieving economies of scale and increased productivity among rural microentrepreneurs. Using three case studies from the USAID-funded JOBS project, the paper will examine:

- What are the viable options for the formation and organization of producer associations, and what are the related constraints or opportunities faced by each approach?
- How are market linkages brokered between lead firms and producer associations, and what is the appropriate role as facilitator?
- How may network facilitation and business linkages stimulate or inhibit the provision of market-oriented BDS?
- What models or lessons may be learned from the Bangladesh experience for replication in other development settings?

For purposes of this paper, “producer associations” are defined as a group of independently development and managed people involved in a common production process.¹

Introduction

Market access is perhaps the most frequently identified constraint among micro-entrepreneurs (MEs), and has a direct impact on both rural development and poverty alleviation. Unless MEs are tied into the formal economy and linked into commercial supply-chain structures, sustainable profit margins will remain low. Scarce resources and low production capability limit opportunities for specialization, innovation, as well as the opportunity to achieve economies of scale. In short, without market access, it is likely that an ME will remain entrenched in the informal sector, relegated to subsistence level production.

Through horizontal linkages, microenterprises are able to overcome a series of market constraints related to size and competitiveness. Advantages stemming from collective organization include: 1) improved access to raw materials through bulk-purchasing of inputs; 2) increased efficiency through sharing of production machinery; 3) enhanced quality through common production standards; 4) increased availability of business or technical skills training through embedded services or bulk purchase; and most importantly 5) improved market leverage

¹ Definition taken from JOBS Project Document, 2002. This definition closely resembles the frequently used term “network,” which as defined by UNIDO refers to a “group of firms that cooperate on a joint development project – complementing each other and specializing in order to overcome common problems, achieve collective efficiency and conquer markets beyond their individual reach.”¹ Ceglie, Giovanna and Marco Dini. “SME Cluster and Network Development in Developing Countries: the Experience of UNIDO,” presented at an International Conference on Building a Modern and Effective Development Service Industry for Small Enterprises, organized by the Committee of Donor Agencies for Small Enterprise Development. Rio de Janeiro, March 1999.



through enhanced production capacity. As a result, producer association approaches have had a direct impact on increased incomes and economic opportunities over the long term.

However, a combination of cultural factors, suspicion and distrust often inhibit inter-firm cooperation. Moreover, the critical lack of resources does not allow a microentrepreneur to experiment, for “failing” is not an option. Consistent with the Donor Guidelines on BDS market development, recent attention has focused on how to: 1) organize producer associations and facilitate business linkages as a competitive, fee-based BDS; and 2) facilitate sustainable mechanisms where business services are provided to these groups through transactional relationships.

The JOBS Project

JOBS² is a USAID-funded job creation and enterprise growth activity that has been operating in Bangladesh for the past five years. In support of this objective, the project has adapted an integrated approach to development, in which MEs are organized into producer associations, and provided a combination of business skills development, financial intermediation, and marketing assistance. The Project has approached the identification and formation of producer associations from a variety of directions, which has produced interesting results. This paper will examine three case studies, which include:

1. The Bagra Handicrafts Association, a women’s handicrafts producer association that was formed under the umbrella of an NGO/MFI which provides credit and training to the group;
2. The Modhupur Pineapple Association, a network of pineapple farmers that receives credit from a commercial bank; and
3. The Shafipur and Mirpur Cluster, clusters of microentrepreneurs that have been established through backwards linkages with a leading footwear firm.

Through these case studies, lessons may be drawn that add to the discussion on producer association and network formation.

Case Studies

The Bagra Handicrafts Association – Market Access through NGO/MFIs³

Thengamara Mohila Sabuj Sangha (TMSS) is a national-level nongovernmental women’s organization based in Bogra, that has been partnered with the JOBS Project. The goal of TMSS is to “uplift the socio-economic condition of the neglected women of the rural areas by applying their decisions for their own development.” This goal is achieved through social and humanitarian activities, including family planning, health, human rights, skills development,

² Jobs, Opportunities, and Business Support Project

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.



income generation activities, and microfinance. At present, TMSS is working in 2726 Villages and 388 Unions of 94 Thanas under 19 Districts. A total of 400,000 beneficiaries are included under 29 categories of projects, which is administered through a network system of 104 branch offices, 18 area offices, and 6 zonal offices. The administrative structure includes 1,829 staff and 3,000 “paid” volunteers. TMSS covers 45 percent of operating costs through income generation activities and member savings, with the additional 55 percent from international donor and Government of Bangladesh funds.

In coordination with JOBS, TMSS 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 Tk. 10,000 – 15,000. After the individuals were identified, the Bagra Handicrafts Association was formed as a women’s handicraft producer association in September 2001.

To support the producer association, TMSS provided a 6 day training in general enterprise development and business management to the MEs. Costs for the training were fully subsidized on behalf of JOBS and TMSS. Once training was provided, producer members were made available increased levels of loans from TMSS. Specific needs-based technical training was also provided (free of charge) in handicrafts design and production, as well as participation in local trade fairs and exhibitions.

Currently, the Bagra Handicrafts Association coordinates closely with TMSS, who serves as the exclusive market broker for the association. Seventy percent of products are sold in the retail market, and 30 percent are sold in the wholesale market. Quality control, price setting, market intermediation, and credit is all provided by TMSS. When interviewed, MEs noted that each member has on average increased income by 1,000 taka per month since they began producing as a collective group.

The Modhupur Pineapple Association – Production Networks through Commercial Finance⁴

The concept for the pineapple association began in January 2001, through initial discussions between JOBS and Abdul Malek, a prominent farmer in Modhupur.⁵ After some follow-up market analysis, it was revealed that there existed a supply of pineapple farmers in the region that were selling in low-volume through independent relationships with middlemen. Farmers were challenged by expensive inputs, low production capacity, and lack of market access. The environment was favorable for development of a producer association.

JOBS facilitated access to working capital through the Social Investment Bank Limited (SIBL), while simultaneously meeting with other small growers to discuss the benefits of collective organization. Through loan facilitation assistance, JOBS promoted an inter-banking relationship in which a rural bank near the village disbursed SIBL’s funds for a small management fee. At the same time, JOBS facilitated skills training and market access with PRAN, a large agriculture

⁴ 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.

⁵ Lai, Chung. “JOBS’ Integrated Approach.” Prepared for JOBS/IRIS, January 2002.



processor in Dhaka, which led to the first contracts. Through the PRAN relationship, pineapples sold were bought at 5.3 taka as compared to 2.6 taka on the local market.

The Modhupur Pineapple Association was formed in May 2001. Initial success of the Association had a multiplier effect, which resulted in the establishment of 12 additional producer associations within the network. The original association now brokers market linkages for all 12 member associations. For a 10 percent commission, the central association negotiates pricing, provides technical assistance in production, and facilitates transportation. Market linkages have been made in Chittagong, Sylhet, Dhaka, and Rajshahi, however the Association has yet to develop long term relationships with specific buyers. Price quotes are accessed through the telephone, and pineapples are sold at spot price offers.

The Association is managed by a 9 member executive committee, each specialized 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 investment in the association (up to 50,000 taka). Funds will be used to procure seeds and purchase land in the name of the association.

The Modhupur Association currently has a total network of 261 members. Through JOBS assistance, each of the 13 associations have 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 (\$US25,275). 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.

JOBS has left the Modhupur Association to operate independently, and provides limited technical assistance as needed. No relationships have been developed yet with large processing firms, however SIBL is considering financing the development of their own processing plant next year.

The Shafipur and Mirpur Clusters – Backwards Linkages from a Lead Firm

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.

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 providing training in specific technical designs was difficult. Apex was looking to expand, however 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. Based upon the identified needs of the firm, JOBS provided a series of strategic interventions and direct technical assistance to overcome market constraints. First, JOBS assisted Apex access and build the skills of 100 new workers for their factory by hiring an Italian footwear specialist. The training lasted six months, 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. Sixty percent of the total training cost was provided by Apex, 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, both of which Apex shared 25 percent 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 percent of the total cost of each of these events.

As collaboration with Apex was taking place, JOBS was simultaneously identifying potential enterprise clusters for backwards 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 6-8 employees), contacted the Project for assistance. Through discussions with the entrepreneurs, it was 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 initial successful experience the Cluster was established.

JOBS provided a skills development training for the Shafipur Cluster during the initial formation of the Cluster as new workers were recruited to fulfill the initial subcontract with Apex. As the Cluster has grown, Apex regularly provides a variety of embedded services to the cluster 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 Cluster, which is located across the street from the Apex factory. The Shafipur has a permanent staff of 80 employees.

Similar services are provided in Mirpur, which was another Cluster established through JOBS assistance. Through JOBS facilitation, an initial training was organized to develop the skills of 60 workers for 16 independent, small entrepreneurs. Each of these entrepreneurs faced similar constraints related to skills, credit, and production capacity. After a successful trial order facilitated by JOBS, Apex subcontracted them for additional work. Through embedded service arrangements, Apex currently provides the Cluster training in quality control, material waste reduction, costing, and book keeping. The Mirpur Cluster employs almost 120 workers full time. To date the Clusters have supplied orders worth \$US90,000.



Currently, Apex employs 400 workers, and has created 244 new JOBS through cluster linkages. The firm 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. Based upon the success and growth of Apex, JOBS has no plans for further investment or training for the firm.

The footwear industry in Bangladesh shares a unique level of inter-firm collaboration, 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 Clusters. For example, although Apex has made a significant investment in both Mirpur and Shafipur, the firm realizes that economic growth and improved welfare among Cluster members directly relates to stronger business ties and better quality product. Cluster members also understand that their relationship is based upon commercial terms. As part of this mutual understanding, both the Mirpur and Shafipur Cluster 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.

Comparative Analysis

Each of the case studies has pursued a different approach in the identification and formation of producer associations, as well as facilitating linkages to the formal market. What are the benefits or opportunities revealed? Based upon their development and organizational structure, what are the challenges or constraints that will be faced by each producer association in the future? How does each Case Study positively contribute to, or inhibit BDS market development?

Market Access through NGO/MFIs

NGO/MFIs were originally targeted as network brokers based upon their outreach and network at the grassroots level. It made sense that to move down market, the Project should leverage off 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 groups into producer associations.

By pre-selecting a group of individuals to receive subsidized credit and training, it is difficult to gauge demand as well as the incentives surrounding formation of the Producer Association. Not only does the NGO/MFI have an undue influence on participants as the micro-credit provider, but by fully subsidizing market transactions, consumer signals are suppressed. 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,” and are typically provided as social welfare for a target group. The charity orientation conflicts with the business-like approach to market linkages and BDS market development. This results in mixed and inconsistent messages from the provider.



As seen in the Case Study, quality control, price-setting, and market intermediation is all provided by the NGO/MFI. The Bagra Colony will likely experience limited growth opportunity if it 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. Equally important, the producer association has been formed within an organizational culture based upon a social or public goods mission. This may have a distortionary effect on the operational culture and business mindset of client MEs.

Production Networks through Commercial Finance

The JOBS approach to the Modhupur Pineapple Association provides an interesting alternative to the NGO/MFI model. As facilitator, JOBS 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 associations 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.

Backwards Linkages from a Lead Firm

Within the Apex Case Study, JOBS Project activities facilitated a range of backward linkages with lead firms and enterprise clusters to exploit an existing market opportunity. From the initial market linkage, the relationships facilitated between producer clusters and lead firm were based upon private sector incentives. BDS through embedded service flows was provided to producer enterprises on commercial terms, reinforcing the value of business services among MEs as well as developing specific product based skills.

Unique to this model is the Project's use of multiple lead firms through subcontracting arrangements with enterprise clusters. Based upon the high level of interfirm cooperation between the leading footwear companies in Bangladesh, enterprise clusters 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 the enterprise cluster, and prevents a price-dependency relationship within the supply chain.

Lessons Learned

Though the Case Studies the following lessons learned may be applied:

- *Facilitating backwards linkages from identified lead firms or an existing market opportunity offers strong potential for sustained growth and income generation – The*



backwards linkages facilitated with the lead firm Apex were in response to an immediate market demand, thus providing instant bottom-line results for cluster members. This success often results in a multiplier effect, and serves to reinforce value along all actors of 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 the Association 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. An effective broker operates like 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.⁶
- *Multiple buyers are necessary for a producer association to maximize growth opportunity and fully exploit market potential* – In the NGO/MFI model, the Bagra 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 Case Study, 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 Case Study, embedded services are an important and viable means of delivering BDS to an otherwise underserved rural client base, and serves to overcome serious ME constraints such as lack of cash flow, lack of management capabilities, and lack of market-based production understanding. If based around commercial terms, embedded services not only reinforce value but serve to leverage additional service providers as the supply chain matures.

Challenges

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

Is direct technical assistance justified in facilitating market linkages?

Within the BDS Market Development Approach, a facilitator 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 Case Studies examined provide new thinking regarding the role of facilitator in producer association formation.

⁶ McVay, Mary. "Microenterprise Marketing: Trends, Lessons Learned, and Challenges." A study by the SEEP Network, funded by CARE International. Washington, D.C. September 1999.



Under the Modhupur and Apex Footwear examples, the JOBS Project applied direct technical assistance with loan facilitation, cluster 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 cluster formation and interfirm 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 Bagra 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, who in turn provided an integrated package of assistance to the Association. The result of this model is a Producer Association that is largely beholden to the NGO/MFI not only for debt repayment, but for both skills development as well as marketing assistance. This monopolistic relationship will both limit the Association's future access to both markets and other specific business services.

Why do the two Case Studies 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. As exclusive BDS provider, credit lender, and market broker, TMSS has a vested interest in the future growth of the Bagra Handicrafts Association. The likelihood that it will provide the Producer Association the necessary level of independence to fully exploit their production capacity (i.e. multiple buyers, commercial credit, other BDS) is unlikely.

This presents a challenge for donors, and merits further discussion. Is the market linkage broker an appropriate role for a donor facilitator, provided a clear exit strategy is followed? What institutional structures exist to facilitate market linkages, yet provide these commercial relationships the necessary space and independence to flourish in the market? How do we protect or minimize the level of exploitation that may ensue?

How should BDS market development be considered within a market linkage intervention?

Although not the primary objective of the JOBS Project, each of the Case Studies had either a positive or negative influence on BDS market development. What was the resulting effect, and what interventions may be applied by a donor facilitator?

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 has distortionary effects on BDS market development, and serves to crowd out the development of other commercial players. Moreover, the business services provided 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 Association 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 facilitator may provide a critical role in enhancing information flows between BDS provider and consumer. A donor facilitator may also pursue alternative delivery mechanisms for BDS, such as embedded service-type arrangements that may 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 could 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 cluster. Since then, Apex has realized the benefit and strategic investment in providing embedded forms of BDS to cluster members through backwards linkages. As facilitator, opportunities still exist to assist the lead firm with BDS, such as conducting market research and competitiveness strategy, as well as stimulating other supplier-provider links along the supply chain.

It was mentioned earlier that BDS is a secondary or tertiary service that must support an existing market opportunity. The challenge for donor facilitators is not “if” but “when” to initiate consideration of market development and apply the necessary intervention(s). When is it appropriate for a facilitator 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.

