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# Weaving Micro and Small Enterprises Into Global Value Chains

The Case of Guatemalan Textile Handicrafts

microREPORT #31

Elizabeth Dunn and Lillian Villeda

July 2005



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#### **DISCLAIMER**

The authors' views expressed in this publication do not necessarily reflect the view of the United States Agency for International Development or the United States Government.

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## FOREWORD

This paper is part of a series of ongoing research activities, funded by AMAP BDS, that explores industry-based strategies to achieving poverty reduction and broad-based economic growth. Drawing from primary research conducted in Guatemala in 2004 -2005, the paper focuses on value chains from the “bottom up.” It examines the extent to which micro and small enterprises (MSEs) benefit from participation in global and domestic value chains, and various market options – both global and local, and the factors that incentivize small firms to upgrade or not.

Relationships between firms are a key theme of the paper. Exploring the power dynamics between enterprises relating vertically and horizontally in the chain, it studies issues of trust, social networks, and transaction costs as a means of disentangling and understanding inter-firm cooperation and competition.

Focused on the textile handicrafts value chain in Guatemala, the paper investigates MSEs’ access to the critical resources and information that allow them to participate and compete in this subsector. Relying on qualitative research, the paper is based on information provided by over 30 MSE owners, 15 lead firms, and other key informants, such as leaders of producer associations, input suppliers, supporting organizations, and donors.

JEANNE DOWNING

USAID/PR/MD

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The authors would like to thank the many entrepreneurs in the textile handicrafts value chain who agreed to spend time discussing their experiences and providing the information summarized in this report. Many of their names are listed in appendix 2, although the names of the focus group participants are not listed individually. Without their generosity and openness, this study would not have been possible, and we are grateful for their collaboration. Special thanks are extended to Silvia Moreira, Executive Coordinator of AGEXPRONT's Handicrafts Commission, and to the members of her staff, for their kindness, their insights, and the extensive logistical support they provided during the field work.

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The cover photo was provided courtesy of Artexco (Quetzaltenango, Guatemala).

# EXECUTIVE SUMMARY

This study examines the Guatemalan textile handicrafts value chain, the firms that operate in it, and the nature of the relationships between them. It is based on qualitative data collected in Guatemala in July and August of 2004. The objectives of the field study were to 1) describe the value chain in detail, with an emphasis on the role of micro- and small enterprises (MSEs), their relationships to other firms in the value chain, and their upgrading behavior and 2) advance the research agenda for AMAP BDS Knowledge and Practice by exploring the relevance of a set of hypotheses designed for use in a subsequent quantitative study and in related studies in other countries.

## **Guatemalan Textile Handicrafts: Boom, Bust, and Future**

Guatemala's indigenous population is known for its colorful traditional clothing, woven by hand using pre-Columbian techniques and combinations of bright colors. Exports of these handicrafts expanded rapidly throughout the 1980s, peaking in 1992. Exports then declined for the next decade, due to factors such as changes in consumer taste and heavy Asian competition.

The future competitiveness of the Guatemalan textile handicrafts value chain depends, to a large extent, on how well microentrepreneurs at the producer level are able to respond to changing market demand. At the same time, the economic welfare of these microentrepreneurs and their households depends on the global competitiveness of the

value chain. Both of these outcomes—the response of weavers to changing market demand and the competitiveness of the value chain—depend to some extent on the nature of the relationships between MSEs and other firms in the value chain.

## **RESEARCH APPROACH**

### **Conceptual Framework**

The conceptual framework for the study combines central concepts from the value chain literature with key socioeconomic concepts related to firm-level decision making. While the value chain side of the conceptual framework sheds light on the markets in which MSEs operate and the structure of relationships between firms, the socioeconomic side of the conceptual framework provides a basis for analyzing the decisions that MSE owners make in response to the opportunities, constraints, incentives, and disincentives that they face in the value chain.

The structure for the study is provided by a set of nine hypotheses organized around three topics:

*Vertical relationships:* These hypotheses focus on the relationships between MSEs and the firms they sell their products to. They are designed to generate information that can facilitate the creation of win-win relationships between MSEs and lead firms by improving governance, increasing trust, and reducing risks and transaction costs.

*Horizontal relationships:* The second set of hypotheses is concerned with identi-

fying and eliminating the barriers to beneficial relationships between MSEs. In particular, the hypotheses consider how horizontal relationships and trust relate to transaction costs, organizational innovations, and human and social capital.

*Upgrading decisions:* The third set of hypotheses examines several factors that influence the upgrading decisions made by MSE owners, including expected returns, risk, inter-firm linkages, and the availability of information. These hypotheses are designed to provide a better understanding of the incentives and disincentives for MSE owners to upgrade and enhance their contributions to the productivity and competitiveness of the value chain.

### **Research Methods**

The study relies on qualitative methods and is based on a series of 70 individual and focus group interviews with firm owners at different levels of the value chain, as well as with representatives from governmental and non-governmental supporting organizations. A stakeholders' seminar at the end of the three-week period of field work provided a forum for presenting and discussing the initial findings with value chain participants.

To structure the individual interviews, separate interview guides were prepared for each of five categories of informants: exporters, designers/exclusive shop owners, artisan-brokers, producer-group leaders, and input suppliers. In addition, an interview protocol was prepared for the focus group interviews

of microenterprise producers (weavers). The topics for the focus groups included weaver's upgrading experiences, information about the distinct ways they sell their products, what they consider to be the differences between these marketing channels, and the kinds of relationships that they have with buyers in each of these channels.

## **GUATEMALAN TEXTILE HANDICRAFTS VALUE CHAIN**

### **Overview of the Value Chain**

The report presents and describes a value chain map for Guatemalan textile handicrafts, indicating the four basic levels of the value chain: 1) input supply, 2) production, 3) wholesale, and 4) retail. Micro- and small enterprises are the predominant type of firm at both the production and wholesale levels. The value chain has three main market channels. First, the exclusive shops sell mainly to upper and upper-middle class Guatemalans and wealthy foreign tourists. Second, the popular and tourist markets include traditional markets, small shops, and street vendors. The third channel represents the export industry and consists of two types of exporters: "traveler-exporters" and full-time resident exporters.

### **MSEs in the Value Chain**

Firms at several levels of the value chain are MSEs, including producers, intermediaries, and retailers in the popular and tourist markets. The productive base of the value chain is composed of 700,000 to 900,000 weavers, most of

whom are indigenous women from socially marginalized, low-income households. These women combine backstrap weaving with other economic activities. Some of them self-market their products to final consumers in the popular and tourist market. Thus, both the productive base of the value chain and many of the retail businesses in the popular and tourist market channel are operated as microenterprises.

Artisan-brokers are themselves MSE owners and act as intermediaries at the wholesale level of the value chain. They are particularly important in the export market channel, where they play a key role in reducing exporters' transaction costs and coordinating the work of large numbers of dispersed MSE producers. It is usually through artisan-brokers that weavers receive embedded services in the export market channel. Artisan-brokers typically are also store owners or market sellers in the popular and tourist market.

Producer groups offer an alternative link between producers and exporters. In these types of arrangements, weavers join together in cooperatives, associations, or other types of membership groups to sell their products through leaders or representatives. In order to be effective, the group leaders need to embody the same set of skills and capabilities as artisan-brokers.

### **Upgrading Opportunities for MSEs**

Upgrading is a way for MSEs to earn higher returns by increasing their value-added contribution to the value chain. There are several upgrading opportunities for MSEs in the textile handicrafts value chain. They can move from the

back strap to the foot loom (process upgrading), respond to changing fashions with new products and designs (product upgrading), reduce the number of firms separating them from the final consumer (functional upgrading), or operate in a new market channel of the value chain (inter-chain upgrading). Each of these types of upgrading offers MSEs the potential for higher returns, but can also pose risks.

### **Vertical Cooperation and Coordination**

In the export market channel, relational governance patterns predominate. This is true at every level of the value chain, beginning with importers and ending with producers. Market relationships are generally limited to smaller transactions and are seen as a way to experiment with and develop new network relationships. In the export market channel, hierarchical relationships are only observed between some importers and exporters. Hierarchical relationships were also observed in the exclusive shops market channel, where textiles may be produced in-house. Relationships between input suppliers and other firms in the value chain tend to be market based. In general, vertical coordination and cooperation between firms in the value chain appear to function fairly well, and in many cases is characterized by thick information flows between firms.

Information on global tastes and preferences enters the value chain most efficiently when it is communicated directly from importers to exporters. Importers can convey product information in several ways, including requesting changes to exporters' existing designs,

sending their own designers to Guatemala, or communicating new designs to exporters electronically or through international couriers. Exporters who lack this “insider” information must seek global market information from other sources, including public information about market opportunities and forecasted fashion trends. Artisan-brokers play a key role in transmitting design information from exporters to producers.

### **Horizontal Cooperation and Coordination**

The main alternative that producers have to selling to artisan-brokers is to sell their products through member-representatives of their own producer groups (i.e., cooperatives, associations, and other types of formal and informal groups). Producer groups arise in an attempt to eliminate the role of the artisan-broker as intermediary. In that sense, they offer producers the chance to engage in functional upgrading and earn higher revenues. Producer groups might also be formed as a way to lower the costs of inputs, marketing, and business services. While there are several potential advantages to participating in a producer group, there can also be serious problems related to lack of trust and group leaders’ opportunistic behavior.

### **Business Environment and Supporting Markets**

There are two ways that business services are provided to firms in the value chain: through embedded services and through stand-alone services. Firms at all levels of the value chain have access to a range of stand-alone services deliv-

ered by a variety of organizations, including for-profit companies, non-governmental organizations, and producer groups. Typical stand-alone business services in this value chain include design services, transport and shipping, and training services.

The limited availability of export-quality dyed threads represents a critical bottleneck in the value chain. Export-quality dyed thread is by far the most important input in the textile handicrafts value chain, since it accounts for the majority of input costs. The availability of special-order colors plays an essential role in allowing exporters to keep pace with changing fashions and to develop samples and new product lines.

The most common financial services observed within the value chain were advances in cash and in-kind advances of thread. However, artisan-brokers and producer-group leaders sometimes must seek alternatives to satisfy their working capital needs, such as a small line of credit from an input supplier. Investment capital is more difficult to obtain than working capital. Producers’ lack of access to investment capital can be a constraint to upgrading investments.

The regulatory environment creates an important distinction between resident exporters and traveler-exporters. In the past, traveler-exporters had many advantages over resident exporters, partly due to the lack of enforcement of regulations. Recent increased enforcement has improved the advantage of resident exporters, and may be contributing to a reduction in purchases by traveler-exporters.

## **IMPLICATIONS OF THE FINDINGS**

The final section addresses the second objective of the study, which is to explore the relevance of a set of research hypotheses related to vertical relationships, horizontal relationships, and MSE upgrading decisions. Based on the evidence provided in the qualitative study, several observations are made:

- Firms reduce the risks of commitment failure by moving toward network relationships, but stop short of seeking captive relationships.
- Trust between buyers and sellers is built slowly over time through a series of “riskable steps” involving increasingly larger orders.
- The transaction costs of conveying new design information appear to be so high that exporters have no choice but to work with commercial intermediaries and/or effectively led producer groups.
- Transaction costs appear to play a negligible role in influencing MSE owners’ willingness to form horizontal relationships (e.g., producer groups).
- Lack of trust appears to be the greatest constraint to the formation of horizontal relationships between producers.
- Bonding social capital does not seem to provide a sufficient basis for overcoming lack of trust in horizontal relationships.
- Producers generally lack the information they need to estimate the expected returns to upgrading.
- The cost of process upgrading through the purchase of the foot loom is prohibitively high relative to the typical weaver’s income and assets.
- By contrast, producers who are connected to buyers through net-

work-type governance relationships have more information to evaluate the expected returns to upgrading and more options for making upgrading investments.

Several strategies are provided for improving the benefits to MSEs. These include strategies for increasing the returns to weavers, enhancing business

development among artisan-brokers and shop owners, and improving the effectiveness of producer groups. Since competitiveness of the value chain is a necessary condition for sustained benefits to MSEs, potential strategies for enhancing the competitiveness of the value chain are also provided. These are primarily based on suggestions made by interview participants.

The paper closes with a brief discussion of implications for future studies of the value chain. Some of the remaining information gaps will be addressed by the subsequent quantitative component related to this study, while others will need to be addressed by independent research in the future.

# I. INTRODUCTION

Globalization connects the world's producers and consumers through new and changing markets. In the case of the Guatemalan textile handicrafts value chain, indigenous weavers create fashionable home accessories and other products for buyers in North America, Europe, and elsewhere. At the same time, these weavers continue to produce traditional clothing and other items for local sale to tourists and residents. For the estimated 700,000 weavers and their families, textile handicrafts provide an important source of household income.

This study describes the Guatemalan textile handicrafts value chain, the firms that operate in it, and the nature of the relationships between them. It focuses on micro- and small enterprises (MSEs) and examines the relationships these MSEs have with each other and with other firms in the value chain. In addition, this study explores the factors that influence MSE owners' decisions to upgrade in order to increase their value-added contributions to the value chain. Through upgrading, MSEs can help to enhance the global competitiveness of the value chain while, at the same time, improving their own opportunities for deriving increased benefits from their participation.

## A. GUATEMALAN TEXTILE HANDICRAFTS: BOOM, BUST, AND FUTURE

Guatemala's indigenous population is known for its colorful traditional clothing, woven by hand using pre-Columbian techniques and combinations of bright colors. Tourists and visitors to Guatemala brought these beautiful textiles home as souvenirs, capturing the interest of consumers in North America and Europe. Exports of handicrafts expanded rapidly throughout the 1980s, when consumer taste and current fashion converged with traditional Guatemalan styles. Also contributing to the export boom, which peaked in 1992, was enhanced cultural awareness, brought on by the 500-year anniversary of Columbus' voyage and the award of the 1992 Nobel Peace Prize to Guatemalan author and activist Rigoberta Menchú.

Exports of Guatemalan handicrafts began to fall in 1993 and continued on a downward trend for the next decade.<sup>1</sup> The majority of consumers in North America and Europe were no longer attracted to the bright colors and traditional designs. In addition, during the boom period some exporters had

flooded the market with poor quality goods made from inferior materials, damaging the reputation of Guatemalan handicrafts. Low-price competition from China and India also contributed to the declining demand for Guatemalan exports.

Currently, firms at all levels of the value chain share a common goal: they would all like to see a sustained increase in sales. In the export market, it is unlikely that Guatemala can beat the Asian competition solely on the basis of price. A more promising strategy for sustainably increasing exports of Guatemalan textile handicrafts is to compete on the basis of quality, innovation, and product differentiation rather than to pursue a competitive strategy based on price.

For the value chain to successfully compete on the basis of product quality and innovation, firms need to improve their ability to perceive and respond to changing consumer demand. Firms need information on current fashion trends, and they need to be able to transmit this information efficiently through the value chain until it reaches firms at the producer level. All this requires a certain level of coordination and cooperation between firms, both vertically (between firms at different levels of the value chain) and horizontally (between firms at the same level of the value chain).

Firms at the producer level, in turn, must be willing and able to respond to changing market information with new products, colors, and designs. The productive base of the value chain consists

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<sup>1</sup> National data on all handicraft exports indicate that the value of exports peaked at over \$18 million in 1992 and fell steadily to just over \$8 million in 2001, the last year for which accurate data are available (Source: AGEXPRONT Handicrafts Commission, based on foreign exchange revenues registered with the Bank of Guatemala).

of hundreds of thousands of home-based microenterprises operated by indigenous women in small towns and rural areas. Their awareness of global market trends and their ability to respond to these trends depend on a number of factors, including their human and social capital, their technical skills, and the quality of their relationships with other firms in the value chain.

In summary, the competitiveness of the Guatemalan textile handicrafts value chain depends, to a large extent, on how well microentrepreneurs at the producer level are able to respond to changing market demand. At the same time, the economic welfare of these microentrepreneurs and their households depends on the global competitiveness of the value chain. Both of these outcomes—the response of weavers to changing market demand and the competitiveness of the value chain—depend to some extent on the nature of the relationships between MSEs and other firms in the value chain.

## **B. STUDY PURPOSE AND OBJECTIVES**

This report presents the results of a qualitative field study conducted in Guatemala in July and August of 2004. The purpose of the field study was to advance an overall research agenda for supporting economic growth with poverty reduction by working within the context of value chains.<sup>2</sup> Within this

overall research agenda, the purpose of the study was to collect empirical information within a specific value chain in order to explore a set of hypotheses about the relationships between MSEs and other firms in value chains and the factors affecting MSE upgrading behavior.

This study has two objectives:

Build descriptive information about the Guatemalan textile handicrafts value chain, the firms operating in it, and the relationships between those firms. This description of the value chain was needed as background information for the design of the associated quantitative study of the value chain.

Explore the relevance of a set of research hypotheses about relationships between firms in value chains and MSE upgrading. These hypotheses have been developed to provide the framework for a number of empirical value chain studies in different countries, with the study in Guatemala being the first.

The next section describes the research approach used in the study, including the set of research hypotheses, the conceptual framework underlying these hypotheses, and the qualitative methods used to collect the data. Section III presents descriptive information about the Guatemalan textile handicrafts value chain. It relies on the information gathered during the three-week field study to describe the following features of the value chain:

Overview of the structure of the value chain;

Characteristics of MSEs participating in the value chain;

Opportunities and constraints affecting MSE upgrading;

Vertical and horizontal relationships between firms, including a discussion of governance relationships and how global market information is transmitted through the value chain; and

The enabling environment and supporting markets for firms in the value chain.

In section IV, the focus returns to the research hypotheses. Drawing from the descriptive information in the previous section, the main findings relative to each of the hypotheses are summarized. In addition, section IV suggests a number of possible strategies for improving value chain competitiveness and enhancing the benefits to participating MSEs. The paper closes with a brief discussion of the implications for future studies, identifying a number of critical areas where future research is needed in order to create a more complete picture of the value chain and gain a better understanding of the opportunities and constraints to MSE participation in the Guatemalan textile handicraft value chain.

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<sup>2</sup> This research agenda is being implemented under the Accelerated Microenterprise Ad-

## II. RESEARCH APPROACH

### A. CONCEPTUAL FRAMEWORK

The conceptual framework for the study combines central concepts from the value chain literature with key socio-economic concepts related to firm-level decision making. From the value chain literature comes an emphasis on the structure of relationships between firms and the distribution of power within these relationships. In addition, this literature provides a framework for describing MSE upgrading and the conditions under which MSEs might have opportunities to learn new techniques and skills from their buyers.

In order to better understand the response of MSE owners to value chain conditions and opportunities, the conceptual framework also incorporates socio-economic concepts and variables related to firm-level decision making under conditions of risk and uncertainty. The framework offers a broad interpretation of rational decision making which is based on expected returns, but also reflects the importance of income stability, transaction costs, and social capital.

### 1. RESEARCH HYPOTHESES

The conceptual framework is summarized in a set of nine hypotheses (table 1). These hypotheses are designed to improve the understanding of how firm owners in value chains respond to the interaction of governance, upgrading opportunities, expected returns, transaction costs, social capital, and risk. The

hypotheses provide the structure for this qualitative study, as well as the subsequent quantitative research.

The hypotheses are organized around three topics:

**Vertical relationships:** These hypotheses focus on the relationships between MSEs and the firms they sell their products to. They are designed to generate information that can facilitate the creation of win-win relationships between MSEs and lead firms by improving governance, increasing trust, and reducing risks and transaction costs.

**Horizontal relationships:** The second set of hypotheses is concerned with identifying and eliminating the barriers to beneficial relationships between MSEs. In particular, the hypotheses consider how horizontal relationships and trust relate to transaction costs, organizational innovations, and human and social capital.

**Upgrading decisions:** The third set of hypotheses examines several factors that influence the upgrading decisions made by MSE owners, including expected returns, risk, inter-firm linkages, and the availability of information. These hypotheses are designed to provide a better understanding of the incentives and disincentives for MSE owners to upgrade and enhance their contributions to the productivity and competitiveness of the value chain.

The basic hypotheses are presented in Table 1, with a more detailed statement of the same hypotheses provided in the appendix (appendix 1). The next two

sections provide a more detailed discussion of the conceptual framework and the variables in the hypotheses.

### 2. VALUE CHAIN PERSPECTIVE

This study uses a value chain perspective to understand how MSE handicraft producers are linked to the local, national, and global markets in which their products are sold. This perspective emphasizes the relationships between firms as they participate in a value-added chain linking input suppliers, producers, wholesalers, and retailers. The nature of these relationships has an effect on both the overall competitiveness of the value chain, the opportunities for upgrading, and the distribution of the benefits received by firms at different levels.<sup>3</sup>

#### a. Value Chain Map

The value chain map is one of the basic tools used in value chain analysis. This map depicts the different types of firms operating in the value chain and the relationships between these firms. It is useful for communicating the basic structure of the value chain and can be used as a framework for recording information about the value chain, such as number of firms in each stage, number of workers in each stage, and aver-

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<sup>3</sup> Additional information on global value chains and value chain analysis is available at the following websites of the University of Sussex, Institute of Development Studies (IDS):

[www.ids.ac.uk/globalvaluechains](http://www.ids.ac.uk/globalvaluechains) and  
[www.ids.ac.uk/ids/global/valchn.html](http://www.ids.ac.uk/ids/global/valchn.html).

age earnings in each stage (McCormick and Schmitz 2002).

**Table 1: Research Hypotheses**

Vertical Relationships	
H.1	Risk in vertical relationships can be reduced by strengthening governance.
H.2	Trust in vertical relationships can be increased by improving information.
H.3	Lead firms will be more willing to form vertical relationships with MSEs if the lead firms' transaction costs can be reduced.
Horizontal Relationships	
H.4	MSE owners will be more willing to form horizontal relationships if the MSEs' transaction costs can be reduced.
H.5	Trust in horizontal relationships can be increased through organizational innovation and improvements in human capital.
H.6	Social capital plays an important role in the successful formation of horizontal relationships between MSEs.
Upgrading Decisions	
H.7	MSE owners base their upgrading decisions on their assessment of the expected returns and risks to upgrading.
H.8	Upgrading can be encouraged by strengthening the linkages between firms.
H.9	Lack of information is a critical barrier to upgrading.

A value chain map makes it possible to easily identify the location of MSEs in the value chain, in terms of the functional levels at which MSEs are operating: input supply, production, wholesale, and/or retail. The chain map also makes it possible to identify the direct relationships between MSEs and other firms in the value chain and the indirect relationships linking MSEs to the final consumer. A map for the Guatemalan textile handicrafts value chain is presented and described at the beginning of

section III, along with the other findings from the field work.

#### b. Governance Patterns

Understanding the nature of vertical relationships between firms is a central concern in value chain analysis. The relationships between firms in value chains are described in terms of different types of governance patterns.<sup>4</sup> At

one extreme of the governance continuum are *market relationships*, which are characterized by arms-length transactions and little information exchange between firms. Firms in market relationships may engage in repeat transac-

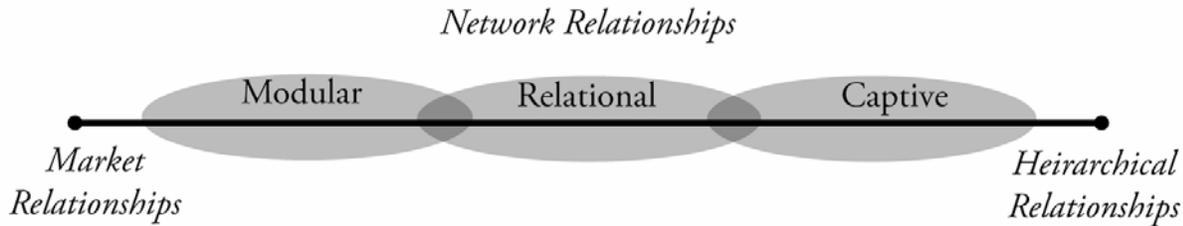
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different governance patterns can be observed at different levels of the value chain. Since this study attempts to provide an in-depth understanding of relationships at several levels in the value chain, it takes the more localized view and examines governance patterns at specific levels of the value chain.

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<sup>4</sup> In the current literature, an entire value chain is sometimes characterized in terms of a single type of governance pattern. In practice, however,

Figure 1: Governance Continuum



tions, but their interactions are limited to the exchange of goods or services for money. At the other extreme of the governance pattern continuum are hierarchical relationships, in which the value-added functions are vertically integrated under the ownership of a single firm. An example of a hierarchical relationship in a global value chain would be a retail chain in one country that manufactures products in facilities it owns in a different country.

In the middle ground between these two extremes are the network relationships, in which the information flows between firms are more extensive than in market relationships. In network relationships, some firms in the chain exert a degree of influence or control over the operations of other firms in the chain (Humphrey and Schmitz 2001). Suppliers in network relationships typically supply products according to buyers' specifications, including what is to be produced, when it should be available, and how it should be produced.

There are three types of network governance (Gereffi, Humphrey and Sturgeon 2005):

1. **Modular governance:** Suppliers provide "turn-key" services in the sense that buyers do not need process technology assistance from suppliers. Suppliers may provide extensive informa-

tion about product specifications, but this information is codified in a standard way understandable to other buyers and suppliers. Buyers and suppliers in modular relationships can form new relationships fairly easily because the methods for exchanging information are standardized and because buyers do not need to invest in building suppliers' competencies.

2. **Relational governance:** Buyers and suppliers use idiosyncratic methods to communicate product specifications, often relying on frequent face-to-face interaction. Buyers and sellers develop mutually dependent relationships based on trust, which may derive from social and/or ethnic ties, spatial proximity, or reputation. Both buyers and sellers find it costly to change relationships because of the time it takes to build trust and to develop the ability to exchange complex information using idiosyncratic methods.

3. **Captive governance:** A supplier in a captive relationship depends on a single buyer for the majority of revenues as well as for assistance with process technology. This makes it difficult for suppliers to switch to different buyers. Power relationships are asymmetric in captive relationships, with buyers exercising greater control and often closely monitoring suppliers' operations. Al-

though buyers face some switching costs, the switching costs are higher for suppliers.

The governance continuum is represented in figure 1. At the far left of the continuum are market relationships, involving little more than the exchange of goods or services for money. As one moves toward the right, buyers exert increasing levels of control over suppliers and there are greater information flows. At the far right of the continuum are hierarchical relationships, in which all functions are vertically integrated in a single firm.

Information on governance patterns can provide useful insights for understanding how MSEs might benefit from their participation in global value chains. Governance patterns can have an effect on market access, the acquisition of production capabilities, and the distribution of gains along the value chain (McCormick and Schmidt 2002). More specifically, governance patterns can influence the opportunities that MSEs have to become more productive and profitable through upgrading.

#### c. Upgrading

Upgrading can be defined as "innovation that increases value added" (Giuliani, Pietrobelli, and Rabellotti 2005). It can take many forms, which

generally fit within the following five categories:

**Process upgrading:** an increase in production efficiency, resulting in either a) greater output for the same level of inputs or b) the same level of output for fewer inputs; process upgrading reduces the costs of production and may be caused by improved organization of the production process or by an improved technology;

**Product upgrading:** a qualitative improvement in the product that makes it more desirable to consumers; the higher quality product commands a higher unit price;

**Functional upgrading:** the entry of a firm into a new, higher value-added level in the value chain; functional upgrading moves the firm closer to the final consumer and positions it to receive a higher unit price for the product;

**Inter-chain upgrading:** the entry of a firm into a new and more lucrative marketing channel in the value chain; typically, this would involve moving from the domestic to the export market for the same product;

**Inter-sectoral upgrading:** the entry of a firm into a new value chain (subsector) involving a completely different product or service.

Governance patterns can influence the ability of MSEs to upgrade in several ways. For example, buyers in captive relationships provide high levels of assistance with process technology, leading to rapid process upgrading. At the same time, the power asymmetries in these relationships can present obstacles to functional upgrading (Schmitz 2004). The three types of network relation-

ships (modular, relational, and captive) encourage product upgrading by MSE suppliers, because buyers provide detailed specifications to suppliers about new products that are demanded by consumers. In section III, both governance patterns and upgrading are discussed within the context of the Guatemalan textile handicrafts value chain.

### 3. SOCIOECONOMICS OF FIRM-LEVEL BEHAVIOR

The conceptual framework for this study takes the value chain perspective as a starting point, but includes additional elements to better understand the behavior of individual firms. These additional elements are drawn from microeconomic theory, the theory of social capital, and transaction cost analysis. While the value chain side of the conceptual framework sheds light on the markets in which MSEs operate and their connections to other firms, the socio-economic side of the conceptual framework provides a basis for analyzing the decisions that MSE owners make in response to the opportunities, constraints, incentives, and disincentives that they face in the value chain.

According to the microeconomic theory of rational decision making under conditions of risk and uncertainty, firm owners base their decisions on their expected returns. Expected returns are the firm's projected profits under conditions of uncertainty. In calculating expected returns, firm owners incorporate their subjective assessments of risks. These risk assessments are based on their beliefs about the chances of incurring a low net return, or even a loss.

As rational decision makers, MSE owners may respond to multiple decision criteria. In other words, the conceptual framework is based on a broad interpretation of firm-level benefits, which includes more than the expected returns at a single point in time. The variability of MSE returns may also carry an important weight in firm-level decisions, especially in those cases where firms, and the households associated with them, lack the assets to sustain short-term losses.

Firm-level behavior is also influenced by a complex set of relationships and the rules governing these relationships. In addition to the governance relationships described earlier, firm-level decisions are also influenced by the patterns of social capital linking firm owners to others, both inside and outside the value chain. Social capital can be defined as the level of trust and/or obligation generated by operating within the norms and networks that govern market and non-market relationships. High levels of social capital can help to facilitate the building of vertical and horizontal relationships within the value chain.

Transaction costs also play a role in firm owners' decisions. These are the non-price costs associated with transactions, and they include the costs of gathering information, the costs of negotiating formal contracts and informal agreements, and the costs of enforcing the terms of contracts and agreements. Transaction costs play an important role in the calculation of expected returns: the higher the level of transaction costs, the lower will be the firm's expected returns.

In summary, the conceptual framework for this research combines ideas from the value chain literature with key socio-economic theories to create a basis for investigating how a variety of factors—expected returns, risks, transaction costs, governance, and social capital—can influence the vertical and horizontal relationships between firms in a value chain and the upgrading decisions of MSE owners. These concepts are reflected in a set of nine hypotheses that provide the basis for the research.

## **B. RESEARCH METHODS**

This study is based on qualitative methods, involving a series of individual and group interviews with firm owners at different levels of the value chain. In addition, representatives from governmental and non-governmental support and facilitation organizations were interviewed. The research approach was exploratory and descriptive. It was exploratory in the sense that it was designed to explore the relevance of the conceptual model and research hypotheses, but it did not attempt to di-

rectly test the hypotheses. The study was descriptive in focus, in that its primary objective was to describe the current structure of the value chain in terms of the firms operating in it and the relationships between these firms.

A total of 70 people were interviewed for this study, using both individual structured interviews and focus group techniques. A complete description of the research methods for this study is provided in Appendix 2.

### III. GUATEMALAN TEXTILE HANDICRAFTS VALUE CHAIN: A DESCRIPTION

The qualitative field research revealed important information about the structure of the Guatemalan textile handicraft value chain, the firms that participate in it, and the relationships between these firms. This section presents these findings. In describing the value chain, the greatest emphasis is placed on understanding the role of micro- and small enterprises, the factors affecting MSE owners' upgrading decisions, and the relationships between MSEs and other firms in the value chain. In addition, the description focuses most heavily on the channel of the value chain that leads to export markets.

#### A. OVERVIEW OF THE VALUE CHAIN

##### 1. VALUE CHAIN MAP

The value chain map for Guatemalan textile handicrafts (figure 2) indicates the four basic levels of the value chain: 1) input supply, 2) production, 3) wholesale, and 4) retail. Micro- and small enterprises are the predominant type of firm at both the production and wholesale levels. Virtually all of the estimated 700,000 to 900,000 producers in the value chain are home-based microenterprises that employ only the weaver and, sometimes, one or two other members of the household.<sup>5</sup>

Most of the artisan-brokers at the wholesale level are also MSEs, as are many of the retailers in the popular and tourist markets.

The value chain has three main market channels, as indicated at the retail level located at the top of the map. For two of the market channels, retail sales of textile handicrafts occur within Guatemala, in 1) exclusive shops and 2) popular and tourist markets. There are approximately 30 exclusive shops, mostly concentrated in Antigua. Their main customers are upper and upper-middle class Guatemalans, but they also sell to well-to-do tourists from Central America, the U.S., Europe, and Japan. These shops offer high-quality products, often based on exclusive designs created personally by the shop owner.

The popular and tourist markets comprise the second domestic retail channel. This market channel includes traditional market places, small shops, and street vendors. There are hundreds of firms in the popular and tourist markets category, and the majority of these firms are MSEs. In some cases, weavers self-market their own products through this channel. In many cases, the shop or market stall owner will sell some self-produced handicrafts alongside products that were purchased from other artisans. The larger shops in the

popular and tourist markets feature products made from many different producers.

There are several ways that the production and retail levels of the value chain can be linked. One way is for exporters and domestic retailers to purchase products directly from the weavers who produce them. These direct links may be made with individual producers or they may be made with leaders of producer groups, who represent a number of producers. An alternative to direct linkage is for domestic retailers and exporters to work through some type of intermediary at the wholesale level. The alternative market linkages, and the kinds of relationships found in each, are discussed in greater detail throughout the rest of section III.

The third market channel, which is represented on the far right-hand side of the value chain map, is the export market channel. One type is the "traveler-exporter" who lives outside of the country, but travels to Guatemala on one or more times a year to purchase handicrafts and ship them back home. Some traveler-exporters buy inventory to stock their own stores, while others re-sell the handicrafts to retail outlets, small stores, and gift shops outside Guatemala. The second type is the full-time exporter who resides in Guatemala.

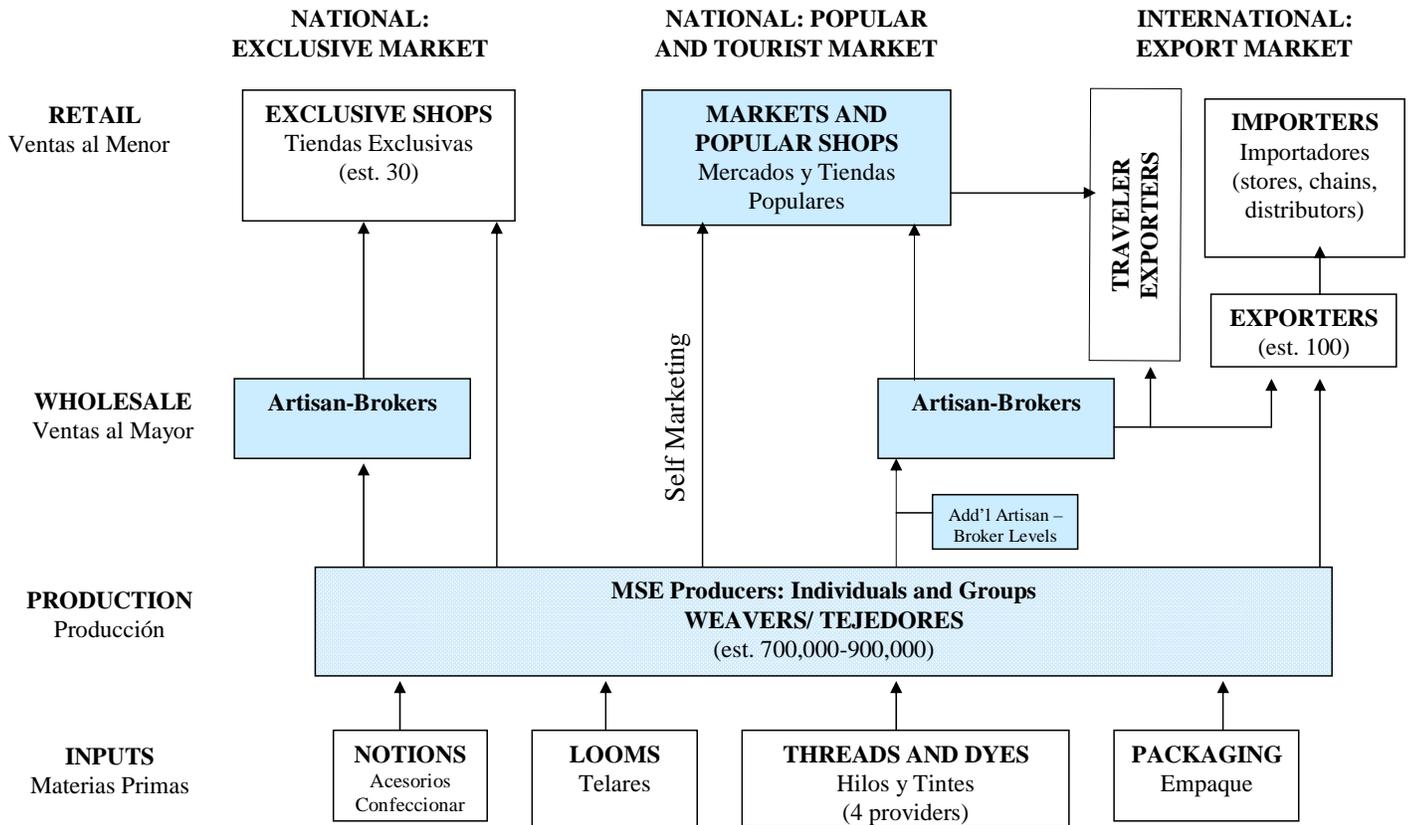
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<sup>5</sup> There is no published information on the number of firms operating in each of the three channels. The numbers reported in this section are

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are estimates from value chain participants at the retail level and experts in supporting organizations.

**Figure 2. Guatemalan Textile Handicrafts Value Chain**



There are approximately 100 “resident exporters” and they represent the largest exporters of Guatemalan textile handicrafts. These exporters will typically source products through intermediaries, especially those exporters with the highest sales volumes. The next section describes the international market in which these exporters operate.

**2. INTERNATIONAL MARKET FOR TEXTILE HANDICRAFTS<sup>6</sup>**

a. Value of Guatemalan Handicrafts Exports

<sup>6</sup> The information in this section came from personal conversations with Lane Pollack (Aid to Artisans) and Silvia Moreira (AGEXPRONT); interviews with Guatemalan exporters; and internet research, including the web sites of the International Trade Center ([www.intracen.org/creativeindustries/](http://www.intracen.org/creativeindustries/)), fair trade organizations ([www.ifat.org](http://www.ifat.org), [www.fairtradefederation.org](http://www.fairtradefederation.org)), and international gift and home products fairs.

It is hard to know the value of Guatemalan exports relative to the international trade in handicrafts, because no reliable data are available at either the national or international levels. Beginning in 2002, the Bank of Guatemala (BANGUAT) stopped requiring handicrafts exporters to register their foreign exchange earnings. In 2001, the last year for which this information exists, exports of all Guatemalan handicrafts (not just textiles) were valued at US\$8.3 million. The majority of these exports went to the United States, Europe, Central America, Mexico, Canada, Brazil, and Japan.

Similarly, reliable statistics on handicrafts are unavailable at the international level, because there is no code for handicrafts in the World Trade Organization's "Harmonized Commodity Description and Coding System" (HS).<sup>7</sup> Informal estimates of the value of global trade in all handicrafts range from US\$13 billion to US\$22 billion annually. This would imply that Guatemalan handicrafts constitute less than one percent of the value of world trade. China and India are considered to be the largest exporters of handicrafts. These two countries, along with several countries in South East Asia, are considered to be Guatemala's fiercest competitors in the international market for textile handicrafts.

#### b. Wholesale and Retail Buyers

International buyers for Guatemalan textile handicrafts can be categorized on the basis of a number of criteria. One way to distinguish international buyers is on the basis of whether they are operating at the wholesale or retail levels. In the retailer/importer category, some of the biggest buyers for Guatemalan textiles are US retailers or retailer representatives, including Cost Plus, AMC (Target), and Pier One. There are other

large retail buyers, such as Crate and Barrel and Pottery Barn, as well as hundreds of retail buyers operating on a smaller scale. Many of these smaller retail buyers may rely on traveler-exporters for their inventory of Guatemalan textiles.

Wholesaler/importers represent a second important group of buyers. These buyers import Guatemalan textiles for resale to other buyers. For example, the San Diego Zoo is a wholesaler/importer that purchases artisanal products and resells them to other zoos and museum shops. The relationships between Guatemalan exporters and international wholesaler/importers cross the governance continuum, from market relationships, to long-term network relationships with independently operated distributors, to hierarchical relationships in which the Guatemalan exporter is part of the same firm as the US or European distributor. For Guatemalan exporters of textile handicrafts, the development of a long-term relationship with a US or European wholesaler/importer can provide a solid sales base. When a long-term relationship exists, Guatemalan exporters often refer to the wholesaler/importer as their "distributor."

International trade fairs provide important venues for bringing Guatemalan handicrafts to the attention of international buyers. The Guatemalan products exhibited at these fairs include home accessories, gifts, fashion, and fashion accessories. In the New York International Gift Fair, wholesaler/importers are the exhibitors and retailers are the attendees. By contrast, at the Ambiente and Tendence fairs in

Frankfurt, Guatemalan exporters exhibit their home accessories and gifts in an FOB section, where importer/wholesalers or importer/retailers attend the fairs to locate and buy new products. Once an exporter makes a contact with a potential buyer through an international trade fair, the exporter usually must invest both time and money into a follow-up process of cultivating the relationship and converting the lead into an actual purchase.

#### c. Fair Trade Buyers

A second way to categorize international buyers for Guatemalan textile handicrafts is on the basis of their participation in fair trade federations. Guatemalan textile handicrafts have been successful with fair trade buyers, especially in Europe, where the fair trade movement is strongest. Fair trade buyers tend to purchase smaller volumes, pay a higher price, and be more forgiving of order fulfillment problems. Two of the largest fair trade buyers in the US are Ten Thousand Villages and A Greater Gift (formerly SERRV). Based on the expert opinions of people interviewed for this study, it appears that roughly half of the sales for Guatemalan textile handicrafts are made to fair trade buyers.

Information on fair trade sales in North America and the Pacific Rim is available from a report sponsored by the US-based Fair Trade Federation and the European-based International Federation for Alternative Trade (IFAT).<sup>8</sup>

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<sup>7</sup> The International Trade Center (ITC) has created a definition for "artisanal products," which it classifies as a subset of creative industries. The ITC has formally proposed a new code within the harmonized system to record international trade in these products. The ITC recognizes six market segments for artisanal products: 1) clothing and accessories; 2) decoration (interior and exterior); 3) household items; 4) gifts; 5) toys; and 6) stationary.

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<sup>8</sup> The report, entitled "2003 Report of Fair Trade Trends in US, Canada and the Pacific Rim," is available at both federations' websites ([www.ifat.org](http://www.ifat.org) and [www.fairtradefederation.org](http://www.fairtradefederation.org)).

According to this report, total sales in 2002 for the fair trade industry in North America were US\$180 million and for the Pacific Rim were US\$71 million. Coffee was the largest component of these sales, especially in North America. Handicrafts sales in the fair trade industry were estimated at US\$13.8 million in 2002, but this number includes more than just textile handicrafts.

In summary, there is little information about the actual volume of exports for Guatemalan textile handicrafts. A major distinction can be made between international buyers on the basis of whether they are retailer/importers or wholesaler/importers. Guatemalan exporters often rely on international trade fairs to make initial contacts with these buyers. At the same time, exporters consider it beneficial to maintain long-term relationships with wholesaler/importers, who act as exporters' overseas distributors. Fair trade buyers purchase a significant share of Guatemalan exports and usually offer higher prices.

## **B. MSEs IN THE VALUE CHAIN**

In this section, the focus returns to Guatemala and the MSEs in the value chain. Firms at several levels of the value chain are MSEs, including producers, intermediaries, and retailers in the popular and tourist markets. Areas of the value chain where MSEs predominate are indicated by the shaded boxes in the value chain map (figure 2).

## **1. WEAVERS**

The productive base of the value chain is composed of 700,000 to 900,000 weavers, most of whom operate as single-person microenterprises. The majority of these weavers use the back strap loom, a traditional technique dating back to the pre-Columbian Mayan period. Today, back strap weaving is practiced exclusively by indigenous women, with knowledge of the techniques being passed down from mother to daughter, or from grandmother to granddaughter. Specific weaving techniques are associated with particular regions and language groups within Guatemala. Weaving on the foot loom, a technique introduced by the Spaniards, is practiced by only about 15 percent of all weavers (Aragon and Associates 2003, 18), most of whom are men.

Weavers generally come from the socially and economically marginalized segments of Guatemalan society. Their household incomes are low and many live in rural and remote areas. Education levels are low, with half the artisans<sup>9</sup> in a recent survey reporting that they only completed a few years of elementary school and another one-third reporting that they were illiterate (Aragon and Associates 2003, 8). In addition, the vast majority of weavers are indigenous, which places them at risk for further social isolation and discrimination. In the survey cited above, some 17 percent of artisans producing handicrafts for the export market chan-

nel did not speak Spanish (Aragon and Associates 2003, 9). The actual number of weavers who do not speak Spanish is probably higher.

### **a. Role of Weaving in Household Economic Portfolio**

Weaving is usually a part-time activity, and it is only one of a number of economic activities within the household economic portfolio. Weaving is combined with other income-generating activities as well as household maintenance (a.k.a., household reproduction) activities in order to create an overall household livelihood strategy. Decisions about the weaving microenterprise are made within the context of the overall household economic portfolio, in which all of the household's economic activities must be supported by the same base of human, physical, and financial resources (Chen and Dunn 1996).

All of the female weavers participating in the focus groups reported that some adult male in their household cultivated the traditional corn and bean agricultural subsistence plot (milpa). Usually, men in weaving households will also work as day laborers (jornaleros) in other seasonal agricultural activities, especially the annual coffee harvest, or as day laborers in non-agricultural sectors. A few women in the focus groups indicated that their husbands worked as skilled laborers, such as bricklayers and carpenters. If the household has sufficient land, household members may also cultivate cash crops.

Women integrate back strap weaving into their household maintenance responsibilities, such as cooking, child

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<sup>9</sup> The 2003 survey, commissioned by Aid to Artisans and AGEXPRONT, included several types of handicraft artisans, with 90 percent of export-affiliated respondents working in textiles.

care, laundry, small animal husbandry, kitchen gardening, and water and fuel collection. The maximum workday on the back strap loom is typically five to six hours, both because of women's other commitments and because of the potential for physical fatigue (i.e., back ache). The back strap loom is portable, so it can be taken to the yard, field, or market. This gives the weaver considerable mobility and makes it easier to integrate back strap weaving into other economic activities.

#### b. Product Self-Marketing

Many weavers are also involved at the retail level, selling their own products to final consumers in popular markets and along roadsides. Their main customers include other indigenous people, many of whom continue to wear hand-woven clothing, and the tourists who travel to Guatemala. Weavers who want to increase the scale of their commercial enterprises end up buying handicrafts from other artisans in order to expand their array of products and attract more customers. Thus, some MSEs at the retail level in the popular and tourist market channel are owned and operated by weavers or other members of weavers' households.

Depending on where they live, weavers may have several alternatives in addition to self-marketing their products to final consumers in popular and tourist markets. These alternatives include 1) direct sales to exporters, 2) direct sales to shop owners in the exclusive or popular markets, 3) selling their products to commercial intermediaries, or 4) joining with other producers to sell their products through producer groups. Each of these marketing alternatives has differ-

ent advantages and disadvantages, which are discussed in the following sections.

In summary, most Guatemalan weavers are indigenous women from socially marginalized, low-income households. These women combine backstrap weaving with other economic activities. Some of them self-market their products to final consumers in the popular and tourist market. Thus, both the productive base of the value chain and many of the retail businesses in the popular and tourist market channel are operated as microenterprises. The next section focuses on a third way that MSEs play an important role in the value chain, which is through their work as artisan-brokers. Many of these artisan-brokers operate microenterprises, while others have operations that would be classified as small enterprises.

## 2. ARTISAN-BROKERS

Artisan-brokers act as intermediaries at the wholesale level of the value chain. They are particularly important in the export market channel, where they play a key role in reducing exporters' transaction costs and coordinating the work of large numbers of dispersed MSE producers. If an exporter has an especially large volume of sales, the products will typically pass through more than one layer of artisan-brokers.

Artisan-brokers are themselves MSE owners. In fact, they are much more likely than weavers to be employed in their handicraft-related MSE on a full time basis. Artisan-brokers typically are also store owners or market sellers in the popular and tourist market. Having a fixed location in the popular and tour-

## PRODUCERS' GLOOMY OUTLOOK

The women in the focus groups expressed several concerns about difficult current conditions in the popular and tourist markets around Lake Panajachel:

- Downward trends in sales
- Recent increases in street crime
- Fewer tourists than before, partly due to negative effects of world terrorism

They also indicated that they face tough global competition in export markets, specifically mentioning Indonesia.

ist market is usually the way that an artisan-broker first comes to the attention of an exporter.

All artisan-brokers interviewed for this study had full-time paid employees, such as store clerks, tailors, and product assemblers. As discussed in more detail in a later section, artisan-brokers appear to be the most likely MSE owners to engage in functional upgrading within the value chain.

Artisan-brokers serve many essential functions within the export market channel of the value chain. They coordinate the work of a large number of weavers, transmitting design information from exporters to weavers and providing a range of other embedded services. They manage product inventory, procure raw materials, and are

often responsible for organizing product assembly. Thus, it is usually through artisan-brokers that weavers receive embedded services in the export market channel.

Successful artisan-brokers in the export market channel possess a special combination of skills and capabilities. These special skills include knowledge of weaving techniques and the ability to

envision design innovations; the ability to communicate in several languages; extensive social capital; the ability to manage physical, financial, and human resources; and access to modern means of communication. Each of these skills and capabilities are described in table 2.

As indicated in the overview of the value chain, producer groups offer an alternative link between producers and

exporters. In these types of arrangements, weavers join together in cooperatives, associations, or other types of membership groups to sell their products through leaders or representatives. In order to be effective, the group leaders need to incorporate the same set of skills and capabilities as artisan-brokers. The advantages and disadvantages of working through producer groups are discussed in detail below, in the section on horizontal cooperation and coordination.

### C. UPGRADING OPPORTUNITIES FOR MSEs

Upgrading is a way for MSEs to earn higher returns in association with the growth in their value-added contribution to the value chain. There are several upgrading opportunities for MSEs in the textile handicrafts value chain. They can move from the back strap to the foot loom (process upgrading), respond to changing fashions with new products and designs (product upgrading), reduce the number of firms separating them from the final consumer (functional upgrading), and operate in a new market channel of the value chain (inter-chain upgrading). Each of these types of upgrading offers MSEs the potential for higher returns, but can also pose risks.

## ARTISAN-BROKER WORKS WITH 600+ PRODUCERS

When large orders come from exporters in Guatemala City, artisan-brokers must respond on time and with no mistakes. Their challenge is to ensure quality inputs, transmit information about the order to a widely dispersed production base, and have the finished product ready on time. So, how do they do it? **By identifying a second layer of artisan-brokers!**

One artisan-broker provided this description of how he works with what he calls his “representatives”:

- He has representatives in different towns who know the local language and can source the unique products from each town efficiently.
- He provides high-quality threads in advance so producers do not use second quality thread.
- He stays in close communication with representatives, using cell phones and frequent visits.
- He operates a workshop where he pays employees to do product finishing and product assembly.
- He maintains a storage room to keep final goods clean and organized until delivery.
- He pays representatives a percentage commission.

**Table 2: Skills and Capabilities of Artisan-Brokers**

Skill or Ability	Description
1. Knowledge of weaving techniques	Awareness of technical aspects of weaving in order to assist with the implementation, communication, and management of new designs. If not former weavers themselves, artisan-brokers may have been raised by parents who were weavers or traders specializing in textile handicrafts.
2. Ability to envision product innovations	Ability to understand new concepts related to product and design innovations. Not only must they readily grasp new product ideas explained to them by exporters, but they must also understand the innovations well enough to explain and demonstrate them to weavers.
3. Bridging communication skills	Ability to communicate with both exporters and weavers. In this capacity, they must form successful commercial bridges between people of different social classes, education levels, and languages (ethnic groups).
4. Extensive social capital	Their social capital includes linking social capital with exporters, bridging social capital with producers from different villages and ethnic groups, and bonding social capital with producers from their same village and ethnic group. To be able to handle large orders, artisan-brokers need to develop bilateral social capital with large numbers of producers.
5. Resource management capacity	Adequate physical and financial assets, as well as good managerial ability, in order to manage advance payments from exporters; procure threads and distribute them to producers; and collect, store, and transport finished products.
6. Modern information and communication technology	Access to modern information and communication technology, such as cellular telephones, fax machines, and electronic mail, in order to communicate efficiently with exporters. If the artisan-broker manages a second layer of intermediaries, then cellular telephones are usually needed for communication about the status of the order.

### 1. PROCESS UPGRADING: MOVING TO THE FOOT LOOM

Low labor productivity<sup>10</sup> is a major constraint to the global competitiveness of the value chain. By limiting the productivity of the individual weaver, it also limits the income that can be earned from weaving. The technology for the back strap loom is very labor intensive, producing approximately an 18- to 20-inch length of woven cloth in the typical workday of five to six hours.

<sup>10</sup> Labor productivity is defined in terms of the output of woven cloth that can be produced per unit of labor input.

There are two types of process upgrading that can increase labor productivity:

1. Moving from the back strap loom (*telar de cintura*) to the foot loom (*telar de pié*).
2. Reducing the complexity and density (*textura*) of the weave produced on the back strap loom.

Only a small percentage of weavers use the foot loom. While these are mostly men, there seems to be increasing interest in the use of the foot loom among women. When women use the foot loom, however, they normally do not produce cloth at the maximum width possible, since they are not physically capable of weaving the larger pieces.

Instead, they produce narrower items such as place mats and shawls. The foot loom is larger, immobile, and requires a fairly large initial investment. Some members of producer groups share foot looms with the other members of the group.

There are several important incentives for moving from the back strap to the foot loom:

- men can become involved in weaving;<sup>11</sup>

<sup>11</sup> Within the indigenous culture, it is considered inappropriate for men to use the back strap loom.

## CRIME'S DOUBLE RISK

Not only does crime reduce tourism, but it also increases the risks of functional upgrading. Weavers who travel in order to self-market or buy and sell others' products report that they are more likely to become robbery victims.

- wider pieces of cloth (e.g., for tablecloths and bedspreads) can be produced; and
- as indicated, more cloth can be produced per hour of labor input.

However, there are also numerous disincentives for moving from the back strap to the foot loom. These disincentives include the following:

- the foot loom requires a large initial capital investment;
- it takes up a large amount of floor space, which may not be available in the weaver's dwelling;
- it is not mobile, so it cannot be combined with other activities that are carried out in different locations;
- the technique is not well-known in many areas, so training is required;
- women are not considered strong enough or big enough to utilize the maximum width capacity of the loom; and

- products woven on the foot loom are considered by many buyers to be lower in quality and lower in value than products woven on the back strap loom, and some of the most intricate designs cannot be produced on the foot loom.

The decision to move from the back strap to the foot loom involves risks. While a woman making this choice should be able to produce more cloth for the time that she spends weaving, she may end up with less income if her products are less attractive to buyers or she has to forego other economic activities that require mobility. Most of the women in the focus groups expressed an interest in the foot loom, but at the same time they voiced concerns about being physically unable to use the loom. Women also indicated that they did not have enough information to make the decision.

## 2. PRODUCT UPGRADING: NEW PRODUCTS AND DESIGNS

Product upgrading can occur in a number of ways. It often occurs in the form of changes in the colors, textures, and designs that are used in weaving a textile. Product upgrading also occurs through the development of new ways to combine textiles with other materials in order to create products for which the textile is only one component, such as decorative boxes, women's leather purses, or dolls. In this case, traditional textile designs may be used and product upgrading is more closely associated with the assembly stage that occurs after the weaving has been completed.

Product upgrading is often motivated by the need to keep pace with current fashions and respond to buyers' changing tastes. Information about changing tastes comes from different sources in the three market channels. In the popular and tourist markets, many producers come in direct contact with final consumers and have a chance to observe what these customers like best. In the exclusive shop market channel, it is the shop owner who monitors trends and often creates the new designs.

In the export market channel, governance structures have an important influence on the way that product upgrading information is received and transmitted through the value chain. Information about new products and designs is usually embedded in the vertical relationships between firms. The role of governance in influencing the flow of product upgrading information is discussed in more detail below.

## IS IT OR ISN'T IT...?

Can buyers always tell which type of loom was used to make a textile? According to weavers, only experienced buyers know the difference between fabrics produced on back strap and foot looms. While these buyers may be willing to pay a premium for the more intricate and durable products made on back strap looms, most buyers in the popular and tourist market are less discriminating. Even buyers who can tell the difference may not be willing to pay the premium.

Another motivation for product upgrading is the need to maintain a market presence by offering unique products that will attract buyers' attention. This motivation to innovate is found in all three market channels. Even within "traditional" weaving, many artisans constantly experiment with small innovations.

Exporters feel a strong need to create new and innovative product lines. These are used to attract buyers attending international trade fairs, such as the New York International Gift Fair. Unfortunately, the development of new product lines can be costly, and there is a risk that they will not generate enough sales to pay their development costs.

## GOVERNANCE CONTINUUM: A REVIEW

In increasing order of information flows and buyer control:

**Market:** arm's length, low information flows

**Modular:** turn-key, switching is easy

**Relational:** idiosyncratic, mutually dependent

**Captive:** supplier depends on a single buyer

**Hierarchical:** vertical integration in one firm

### 3. FUNCTIONAL UPGRADING: MOVING CLOSER TO THE CONSUMER

There are several ways that MSEs can engage in functional upgrading within the value chain:

1. Self-marketing of one's weavings in the popular and tourist markets.
2. Moving from being a producer only to being an artisan-broker. Even more generally, a producer engages in functional upgrading as soon as he/she begins to sell products produced by other weavers.

3. Moving from being an artisan-broker to being an exporter. Both exporters and artisan-brokers are keenly aware of the potential that exists for artisan-brokers to engage in functional upgrading.

In general, all three of the market channels in the value chain offer the possibility of functional upgrading in the sense of moving from selling products through an intermediary to direct marketing of products to the final consumer, the exclusive store owner, the exporter, or even the importer. Both weavers and artisan-brokers consider functional upgrading an attractive option for earning higher income. Among the obstacles to functional upgrading are lack of mobility, lack of capital, and lack of market information.

In many cases, the motivation for forming producer groups is to facilitate functional upgrading. Produc-

## WHY CHANGE DESIGNS?

Women in the focus groups gave several answers:

- to get buyers' attention
- to increase sales
- to create a unique product and, thus, avoid intense price competition
- to respond to buyers' specific requests
- to keep up with styles
- to be creative

ers may work together in a group to purchase a retail location, manage a large order without an intermediary, or exhibit products in a product fair. By forming groups, individual weavers can reduce the costs of functional upgrading.

### 4. INTER-CHAIN UPGRADING: SELLING IN MORE THAN ONE MARKET CHANNEL

It appears that many, if not most, producers sell in more than one market channel. This also appears to be the case with the artisan-brokers, many of whom work both as intermediaries in the export marketing channel and as direct market vendors in the popular and tourist market channel. Rather than specializing in one market channel, producers and artisan-brokers seek to exploit the advantages and manage the risks that are inherent in each channel.

In the focus groups, weavers reported that they prefer selling their products in local and popular markets rather than through export market channels. They offered two main reasons for this

**Table 3: Governance Patterns in the Export Market Channel**

Links Between...	Governance	Observations
Importers and Exporters	Hierarchical Relational Market	A single exporter may have network relationships with some importers and market relationships with others.
Exporters and Artisan-Brokers	Relational Market	Mature relationships are typically close and characterized by a relational governance pattern.
Artisan-Brokers and Producers	Relational Market	Artisan-brokers consider captive relationships undesirable, since they cannot keep producers fully occupied.

preference. First, weavers report that they make less money in the export market channel than they make when they sell in local markets. This is because buyers in the export channel require volume discounts, leading to the payment of lower unit prices at the producer level.

Producers report that they are usually not able to sell enough units in the export channel to compensate for the lower unit prices they receive. According to producers, they need a higher volume of sales than they currently have in the export channel to make it the most attractive market channel.

A second problem is that the income from export sales is less reliable. The cash flow from local sales is more steady and predictable. A long time might pass between export orders and producers cannot predict when the next order will come. In addition, payments in the export channel are uneven (i.e., “lumpy”) and may be delayed. All of this increases the risks associated with the export channel.

Based on these qualitative results, it appears that weaving for the export

market channel is less attractive than weaving for the local market channel. For weavers to maintain interest in the export market channel, it must provide them with frequent orders at relatively large volumes. Weavers report that they would be glad to produce at higher volumes for the export channel, if given the opportunity.

## **D. VERTICAL COOPERATION AND COORDINATION**

### **1. GOVERNANCE RELATIONSHIPS**

A variety of governance patterns can be found in the textile handicrafts value chain. Even at the same link in the value chain, different types of governance relationships can be observed. Table 3 indicates the governance patterns observed in the export market channel. The most common types of relationships observed in the export

## **EXPORT MARKETS NOT ALWAYS BETTER**

In the focus groups, women explained why they prefer selling in local markets and to tourists (“visitors”) rather than in export markets:

- “I like the visitors because when they arrive, the visitors pay the price the product costs.”
- “We export, so we sell very cheap...it is not the same as when visitors come...the visitors pay the price.”
- “[I like selling retail] because you earn a little more... wholesale the price is different [lower].”

market channel were market relationships and network relationships. Some exporters have a hierarchical relationship with an importer, meaning that the exporter and importer are parts of a single firm.

Governance patterns outside the export channel vary. In the popular and tourist markets, most sales occur within market relationships in which MSE sellers conduct arm's length transactions with local or tourist buyers. In general, retailers in the popular and tourist market learn what clients want by observing which products sell more quickly, although retailers will sometimes engage buyers in conversations to learn about preferred color combinations or seasonal preferences. In the exclusive shops channel, sales volumes are usually smaller than in the export channel, with the result that it is less likely for there to be intermediaries between buyers and producers. Buyers and producers in the exclusive shops channel usually have strong network relationships. Some exclusive shops rely on in-house production, so that relationships between buyers and producers are hierarchical.

#### a. Evolving from Market to Network Relationships

The most commonly found governance pattern between exporters and artisan-brokers in the export market channel typically begins as a market relationship and evolves toward a network relationship over time. The initial meeting often occurs when the exporter enters a popular store or market stall operated by the artisan-broker; in other cases, the artisan-broker might seek out and approach the exporter. Initial transactions are limited in scale, with the size of the

order increasing through a series of "riskable steps." As the artisan-broker demonstrates good performance, in terms of quality and on-time delivery, the exporter comes to trust the artisan-broker, and a relational governance pattern emerges. Before placing a large order, an exporter needs to have confidence in the artisan-broker's willingness and ability to deliver products according to the exporter's specifications.

Many of the governance relationships at other levels of the value chain follow a similar pattern, evolving from market based to relational. Relationships between importers and exporters are often based on relational governance patterns, although several of the exporters interviewed for this study had hierarchical relationships with their importers. When there is more than one layer of artisan-brokers, these also start as small, market-based transactions that grow into larger product volumes sold under relational governance. Relationships between artisan-brokers and producers tend to be either market-based or relational.

#### b. Factors Working Against Captive Relationships in Export Channel

Captive relationships were not observed in the export market channel, and they are considered undesirable by exporters and artisan-brokers. This is due to the cultural and intergenerational basis of weaving, which leads to certain weaving techniques being associated with specific geographic regions. Therefore, exporters who want to be able to source a variety of weaving styles need to maintain a network of artisan-brokers spread across different regions of the country. Similarly, artisan-brokers seek

connections to a variety of producers with a variety of technical skills.

Since exporters and artisan-brokers maintain broad production networks, their product orders at any point in time are normally not enough to fully employ all of the producers across their entire network. Therefore, exporters encourage artisan-brokers to work with other exporters, and artisan-brokers encourage weavers to work with other artisan-brokers. They consider this to be the best way to ensure that weavers receive sufficient orders to keep them interested and motivated enough to continue to pursue weaving as an income-generating activity.

In summary, exporters and artisan-brokers do not seek captive relationships with producers. This is because they need access to a geographically

## ARE THERE FEWER GOOD WEAVERS?

Exporters, shop owners, and artisan-brokers seek to maintain broad production networks, in part because they worry that the number of skilled weavers is shrinking. They offer a few explanations for this trend:

- Heavy emigration from certain rural areas, leading to loss of the unique weaving skills associated with those specific areas
- New opportunities for girls to attend secondary school, causing many young women to forego weaving as an economic activity

disperse production base, while at the same time being unable to keep their networks fully employed with their own orders. Instead, they encourage producers to accept orders from other firms, hoping this will keep skilled weavers actively involved in producing textiles for the export market.

### c. Negative Attitudes toward Intermediaries

Producers are aware that every firm between them and the final consumer will normally receive some portion of the final sales revenue. Many producers aspire to eliminate one or more of the intermediary firms in order to receive a higher percentage of the price paid by final consumers. Most producers are unable to do so, however, because they lack sufficient resources, opportunities, and/or market information. This can lead producers to resent intermediaries, especially the brokers immediately above them in the value chain, with whom producers deal directly.

In the export market channel, there are usually four or more firms separating producers from the final consumer: 1) artisan-brokers, 2) exporters, 3) importers, and 4) foreign retailers. Producers know that artisan-brokers receive part of the money that exporters pay for their products, although producers usually do not know the amount of the intermediaries' margins. This leads to negative attitudes toward artisan-brokers in general.<sup>12</sup> The alternative is

for producers to form groups in order to deal directly with exporters. Some producer groups also manage to avoid exporters and deal directly with importers.

Producers have the best opportunity to deal directly with the final consumer in the popular and tourist market channel, where there may be only one or two firms between the weaver and the final consumer. The first intermediary is usually the broker-wholesaler, who lives in (or travels to) the village and buys from several weavers. The broker-wholesaler then sells products to a retail firm operating in the marketplace. To bypass the broker-wholesaler, a weaver must be able to travel to the marketplace to conduct sales directly with retailers. If she wants to bypass the retail firm as well, the weaver must establish a retail location and attract customers. All of this requires the resources to travel, the ability to spend time away from home and other economic activities, knowledge of how the market operates, information about buyers, financial capacity to establish a locale, and an effective marketing strategy. These are constraints to functional upgrading.

Producers typically lack information about levels of the value chain above the initial point at which they sell their products. For example, it is common for a weaver to sell to an artisan-broker without knowing which market channel

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being intermediaries. The term "artisan-broker" was coined for this study (and used during interviews) in order to avoid the negative connotations associated with the word "intermediary" while also signaling an awareness of the special skills and abilities needed to function at this level in the export market channel.

the product will eventually enter. Lack of information about marketing channels prevents producers from creating aggressive and effective marketing strategies. In addition, this lack of information can lead to inaccurate ideas about how the value chain functions and mistrust of other actors in the value chain.

### d. Summary

In the export market channel, relational governance patterns predominate. This is true at every level of the value chain, beginning with importers and ending with producers. Market relationships are generally limited to smaller transactions and are seen as a way to experiment with and develop new network relationships. In this market channel, hierarchical relationships are only observed between some importers and exporters. Hierarchical relationships were also observed in the exclusive shops market channel, where textiles may be produced in-house. Relationships between input suppliers and other firms in the value chain tend to be market based. In general, vertical coordination and cooperation between firms in the value chain appears to function fairly well, and in many cases is characterized by thick information flows between firms.

## 2. INFORMATION FLOWS

### a. Receiving Information on Global Market Demand

Information on global tastes and preferences enters the value chain most efficiently when it is communicated directly from importers to exporters. Under this "insider" information track, importers provide precise product

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<sup>12</sup> Artisan-brokers are known locally as "*intermediarios*" or, more pejoratively, as "*coyotes*." The negative attitudes toward intermediaries are so strong that few respondents in the ATA-AGEXPRONT baseline study would admit to

specifications at the time they place their orders with exporters. In this way, exporters produce products that are already sold before they are produced.

Importers can convey product specifications in several ways. One way is for an importer to ex-

press an interest in the line of products displayed by an exporter at a trade fair, but then to indicate the changes the importer would like. The importer may request any of a number of modifications, including changes to the color palette, product size, product shape, product type, or finishing techniques. Information on colors can be conveyed easily and accurately through the use of the Pantone (TM) color classification system.

Another way that importers convey product specifications is to send their own designers to Guatemala. These designers, who may be employees or contractors of the importer, work alongside Guatemalan exporters to develop new products. Designers can often communicate both aesthetic and cost information to exporters. They may spend several months in Guatemala, assisting with the development of prototypes and training artisan-brokers in the product specifications. Exporters will then usually work through artisan-

## KEEP IT SIMPLE – CODIFYING DESIGN INFORMATION

To save time and ensure accuracy, artisan-brokers and producer groups use codification systems to communicate repeat orders for existing product designs.

**Naming the Design:** One producer association maintains a three-ring binder with samples of past products in different color combinations. Each sample has a name—usually the name of the weaver who created it (e.g., “Linda 2”).

**Using Letters:** One artisan-broker simply uses letters (e.g., “M”) to communicate specific designs to producers.

brokers to transmit this color and design information to weavers.

Exporters who lack this “insider” information track must seek global market information from other sources, including public information about market opportunities and forecasted fashion trends. This information may come from paid designers, trade journals, retail catalogs, or by attending trade fairs. This “outsider” information track is less efficient in the sense that it is hard to stay ahead of the curve and exporters must produce a product before they have a guarantee they will be able to sell it.

### b. Transmitting Information through the Value Chain

Information flows can be very “thick” in the export market channel, in the sense that product specifications are passed down from one firm to the other. There are high transaction costs related to conveying information on new designs. These transaction costs are incurred in order to reduce the risk that a product will not match the

buyer’s design and/or quality specifications.

Information on new designs is usually provided visually (in two or three dimensions) and includes one or more face-to-face meetings.

Artisan-brokers play a key role in transmitting design information from exporters to

producers. They reduce the transaction costs that exporters would incur if exporters attempted to transmit detailed design information to large numbers of dispersed MSEs.

In order to avoid costly production mistakes with new designs, actors in the value chain often begin the process by developing prototypes (muestras). Several rounds of product development may be necessary before the producers are ready to create the product in the exact way the buyer wants. Expenses for prototype development are traditionally borne by the seller. Products or designs that are purchased repeatedly are usually assigned a code or unique name to facilitate future communication about repeat orders.

### c. Quality Control

In the export market channel, exporters control product quality in several ways:

- Specifying the exact colors and designs to be produced, often work-

## THE TALE OF THE DISHONEST COOPERATIVE LEADER

With 160 members, and over 24 years of existence, this cooperative in the Western Highlands of Guatemala resembles many other Latin American cooperatives. The leader was responsible for taking buyers' orders, using the cooperative's working capital fund to purchase inputs, and distributing orders among members in an equitable way.

Until one day, when the orders stopped coming.

The leader had secretly started sourcing from weavers who were not members of the cooperative. People even suspected that he was sourcing from his own workshop. Although he was fired, the cooperative's institutional memory left with him, and the new leader is struggling to recover the list of previous clients. Meanwhile, the dishonest former leader is now a successful commercial intermediary operating in the same town and competing for orders with the cooperative.

ing with samples and prototypes (as described above).

- Providing the raw materials (i.e., export-quality dyed thread) to producers. This embedded service is typically provided by the artisan-broker. The exporter provides the artisan-broker with a cash advance worth 50 percent of the value of the order, and the artisan-broker uses the cash advance to buy export-quality thread in the correct colors.
- Limiting the size of orders with new suppliers until the supplier demonstrates an acceptable level of quality. This is part of building trust and relational governance between firms.
- Performing at least some quality inspection at every level of the value chain.

Information flows are also thick in the exclusive shops market channel and a similar process for quality control is followed. However, in this channel, the product is usually designed by the store

owner and production is sometimes organized in house.

### 3. Embedded Services

As the previous discussion suggests, MSEs might receive a number of embedded services through their relationships with buyers. This is true particularly in the export market channel, where artisan-brokers and producer groups receive cash advances, new designs, and training from exporters. Embedded services are also provided by owners of exclusive and popular shops. In all three market channels, producers may receive in-kind advances of threads, instructions on new designs, training, and assistance with product transport and storage.

The availability of embedded services hinges on the existence of a strong network type of relationship between the buyer and the MSE. Under these network types of governance, buyers use embedded services to control product quality, keep production costs low (e.g., by buying thread in bulk), and ensure the loyalty of trusted and skillful weavers. Producers who are operating pri-

marily on the basis of market relationships must self-finance their inputs and find alternative, stand-alone business services (see section F). In some cases, producers might cooperate with each other in an attempt to gain better access to these services. This horizontal cooperation is the topic of the next section.

## E. HORIZONTAL COOPERATION AND COORDINATION

The main alternative that producers have to selling to artisan-brokers is to sell their products through member-representatives of their own producer groups (i.e., cooperatives, associations, and other types of formal and informal groups). Producer groups arise in an attempt to eliminate the role of the artisan-broker as intermediary. In that sense, they offer producers the chance to engage in functional upgrading and earn higher revenues. Producer groups might also be formed as a way to lower the costs of inputs, marketing, and business services.

In deciding whether to participate in a group, producers must weigh the potential benefits of participation against the potential risks. In addition to opportunities for functional upgrading and reducing costs, there are several other potential benefits of belonging to a producer group:

- Being represented by leaders with higher levels of human capital, in terms of literacy, record-keeping skills, and the ability to speak Spanish.
- Ability to accept larger orders. This opens up the possibility of working with buyers operating on a larger scale.
- Access to better communication infrastructure. The group can operate a telephone, fax, or internet connection, which individual members would not normally be able to afford.
- Possibility of hiring a professional manager, assuming the group has enough business to support it.
- Ability to solicit and receive training, technical assistance, and other services from donors and NGOs supporting the sector.
- Potential for establishing a brand or unique identity that buyers can remember.

Trust is a key to the formation of effective horizontal relationships in the value chain. But, as the results of the field study indicate, trust is not always warranted on the basis of experience. There were many stories

There were many stories of problems with producer groups.

One of the biggest problems with producer groups is that group leaders may behave opportunistically. While some producer groups are functioning effectively, horizontal relationships between producers have a wide-spread reputation for being problematic and characterized by fraudulent, opportunistic, and rent-seeking behavior. These problems occur even when the members of the group come from the same ethnic group and live in close proximity to each other.

The anecdotal evidence from the field study indicates that there are major trust issues associated with producer groups. Apparently, group leaders commonly try to take advantage of the fact that they have access to information that other members of the group do not have. Group members routinely express lack of trust in their leaders and

## “THEY GRABBED OUR CLIENTS”

Women in one focus group were in an uproar about a recent incident involving a newly formed producer group. After attending a few initial meetings, they lost interest when they saw no results for their businesses.

Now they’re angry that the leaders were sponsored for international training but have not shared any information with the group. They suspect the leaders of stealing their clients.

lack of transparency in the business dealings of the group. Examples of ways that leaders have taken advantage of this asymmetric information include the following:

- Withholding information about orders from the group, and then contracting with individual weavers outside the group. In this way, the leader is able to receive personal financial gain by serving as an artisan-broker, while the members of the group do not receive any income from the order.
- Receiving payment for the order in dollars, converting the currency, then deceiving group members about the exchange rate received. In this way, the leader pockets the difference between the actual and reported exchange rate.
- Paying group members a piece rate that is less than the piece rate paid by the buyer. In this way, the leader pockets the difference between the actual and reported piece rate.
- Pocketing funds that are provided for the social benefit/development of the group members (e.g., education funds).
- “Terrorizing” group members. Leaders sometimes use implicit and explicit threats to coerce group members into accepting conditions they would not otherwise accept.

A handful of exporters and exclusive store owners have experimented with innovative approaches for working with producer groups. For example, one store owner insists that different repre-

representatives of the group come each time to receive new orders and learn how to produce new products. This way, more

## THE “FULL-SERVICE” SHIPPER

A local shipping company can provide a number of services:

- receive an order sent through phone, fax, or email
- contact the artisan-broker or producer group indicated by the buyer to convey the order details
- relay information on the progress of the order
- provide packaging services
- arrange local and international transport of goods to buyer
- complete legal paperwork
- convey payment from buyer to seller

members of the group have direct contact with the buyer and are familiar with how the products are marketed to the final consumer.

Several NGO exporters reported investing considerable time into developing groups and teaching them effective group management skills. They indicated in the interviews that the development of effective producer groups is a slow process, hampered by low levels of literacy and the lengthy guerilla war in which neighbors learned not to trust each other.<sup>13</sup> It appears that it will take

<sup>13</sup> The 36-year civil conflict in Guatemala (1960-1996) left 150,000 people dead and 50,000 missing. During this conflict, there was heavy guer-

some time to overcome the historic obstacles to horizontal cooperation.

## F. BUSINESS ENVIRONMENT AND SUPPORTING MARKETS

Firms in the value chain are supported and constrained by a range of other factors that create the business environment in which they operate. The business environment affects the ability of MSEs and other firms to take advantage of upgrading opportunities and remain competitive in the global market. This section discusses issues related to the availability of financial and non-financial business services, high quality inputs critical to the value chain, and selected aspects of the enabling environment.

### 1. BUSINESS SERVICES FOR MICROENTERPRISES

There are two ways that business services<sup>14</sup> are provided to firms in the

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rilla and army presence in the rural areas, and most of the dead and missing came from the rural indigenous population. In many villages, residents were caught between the guerillas and the army, with both sides encouraging informants to reveal the loyalties of their neighbors.

<sup>14</sup> In this discussion, business services refer to a wide a range of services that can be categorized as follows: market access, infrastructure, policy/advocacy, input supply, training and technical assistance, technology and product development and alternative financing mechanisms. (Source: *SEEP Guide to Business Development Services and Resources*, Small Enterprise Education and Promotion Network

[www.seepnetwork.org/bdsguide.html](http://www.seepnetwork.org/bdsguide.html))

value chain: through embedded services and through stand-alone services. Some of the embedded services that are provided as part of vertical relationships in the value chain have been described in previous sections. This section emphasizes stand-alone services, which are typically delivered on a fee-for-service basis by third-party organizations that may not be part of the value chain. Firms at all levels of the value chain have access to a range of stand-alone services delivered by a variety of organizations, including for-profit companies, non-governmental organizations, and producer groups.

Whether delivered on an embedded or stand-alone basis, certain business services play a key role in encouraging MSE upgrading. Design services help to promote product upgrading, while transport and shipping services can widen the opportunities for functional upgrading. Product and functional upgrading are also facilitated by training and by services to promote market linkages.

#### a. Stand-Alone Design Services

In addition to embedded design services which are provided within vertical relationships along the value chain, a limited amount of stand-alone design services are available in Guatemala. Local design services are provided for the most part by either NGO leaders (usually expatriate staff) or by support organizations in Guatemala. In one case, an NGO leader purchased design services from a local designer to jointly develop a product line, thus allowing her and the local designer to draw from each other's strengths. In another case, a producer group indicated it was just

beginning to acquire design services from a Quetzaltenango-based support organization that produces computerized designs for weavers.

Stand-alone design services are also available from international designers, but there is a general feeling that these services are too short-term in nature and do not offer sufficient follow-up. Most NGO leaders agree that working with weavers to develop new products requires time and oversight to correct mistakes, and that it is a long process since it takes time to “train people’s eye.” Most of these international design services are paid for by donor-funded projects.

Increasingly there is a sense (including among weavers) that design services play an important role in product upgrading, which improves weavers’ ability to compete in local and export markets. Artisan-brokers and producer groups who are not directly tied to international buyers or exporters do not benefit from embedded design services. In order to attract new buyers and gain entry to new markets, they are showing that they are willing to invest in local design services to develop better products. Some producer groups are purchasing local stand-alone design services to develop new product lines. The use of a design service to develop a new product line is particularly helpful in preparing for national and international trade fairs to attract new buyers. It is evident that there is a demand for more affordable, locally provided design services that would help weavers and producer groups compete in local and export markets through product upgrading.

#### b. Transport and Shipping Services

Locally operated transport and shipping companies provide a wide range of services that make it possible for artisan-brokers and producer groups to deal directly with foreign buyers. This expands the opportunities for functional upgrading in the export market channel. The transport company interviewed for this study estimated that thirty percent of its clients were traveler-exporters who were placing repeat orders with producer groups and artisan-brokers. However, the average number of shipments has fallen over the past several years. For example, the transport company made 100 shipments in July 2000, but only 35 shipments in July 2004. The transport company has started calling and sending emails to past buyers, in hopes of stimulating more shipments.

Typically, transport and shipping companies provide standard services including: packaging, local transport, shipping of final goods, and processing of export documents. In addition, shipping companies can provide information and communication services as part of the business transaction. These embedded services help producer groups and artisan-brokers maintain communication with potential repeat buyers and be more responsive to special orders and delivery dates. In some instances, transport companies may display samples in their offices or refer potential new buyers to local producers.

#### c. Market Linkages and Training for Producers

At least three non-governmental organizations organize product expositions to foster market linkages between

producers and final buyers in local and international markets. All these organizations provide training as well, and combine the services so that producers can better understand the final market. By attending product exhibitions, producers accomplish more than meeting potential buyers: they observe first-hand the products other producers are selling, understand the importance of customer service when dealing with buyers, and discuss with other producers how to incorporate branding into their marketing strategies.

Producer associations also develop marketing strategies and provide market linkage services to their members. Some producer associations use websites to provide on-line catalogs, advertising, and contact information. Some associations manage museums to display the history and art of back strap weaving and its role in Guatemalan culture. These serve to educate buyers and tourists and in some cases, establish new long-term relationships. Producer associations can also register with fair trade federations and connect to fair trade buyers in the US and Europe.

Training services are offered to micro-enterprises in a range of topics (table 4). Training in the use of the foot loom is an interesting example of how technical training can assist a producer with process upgrading that leads to labor-saving technology. Training in product design, provided on a short-term basis, assists producers with developing new product lines and helps to promote product upgrading.

**Table 4: Training Services Offered to MSEs**

<b>Type of Training</b>	<b>Sources</b>	<b>Relevance to MSEs</b>
Technical Training in <ul style="list-style-type: none"> <li>▪ Natural dyes</li> <li>▪ Sewing/finishing</li> <li>▪ Use of foot loom</li> </ul>	<ul style="list-style-type: none"> <li>▪ NGOs</li> <li>▪ Producer associations</li> <li>▪ Government agencies</li> </ul>	Technical training assists producers who are interested in process and product upgrading
Technical Training in <ul style="list-style-type: none"> <li>▪ Product design</li> <li>▪ Computerized design</li> </ul>	<ul style="list-style-type: none"> <li>▪ International and local designers</li> <li>▪ NGOs</li> </ul>	Product design helps MSEs to innovate new products (product upgrading) and better understand market demand and trends
Business Training in <ul style="list-style-type: none"> <li>▪ Bookkeeping</li> <li>▪ Management</li> <li>▪ Computer skills</li> </ul>	<ul style="list-style-type: none"> <li>▪ NGOs</li> <li>▪ Producer associations</li> </ul>	Given low levels of education, business training provides some basic business concepts to operate any business
Human Resource Management Training in <ul style="list-style-type: none"> <li>▪ Group management</li> <li>▪ Conflict mitigation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Producer associations</li> </ul>	Helps foster more effective and efficient horizontal relationships among producers

## 2. AVAILABILITY OF EXPORT-QUALITY DYED THREAD

Export-quality dyed thread is by far the most important input in the textile handicrafts value chain, since it accounts for the vast majority of input costs. The availability of special order colors also plays an essential role in allowing exporters to keep pace with changing fashions and to develop samples and new product lines. The limited availability of export-quality dyed threads represents a critical bottleneck in the value chain. All of the firms in

the value chain are affected by supply limitations and related factors including

- The high costs of imported dyes. All export-quality dyes are manufactured in Europe and imported to Guatemala.
- Minimum dye lots. The smallest quantity of thread that can be dyed to a special order color ranges between 25 and 300 pounds. This increases the cost of prototypes and discourages small-scale production

and the use of designs with small amounts of special-order colors.

- Distance from producers. The two largest thread suppliers are in Guatemala City, which is distant from most producers. The other two thread suppliers are in Quetzaltenango, which is closer to some producers but still distant from the majority of rural producers.
- Inconsistent quality. Exporters and intermediaries complain that the dye lots they receive do not always

maintain consistent color throughout.

There are only four companies that supply export-quality dyed thread, and all four were operating at full capacity at the time of the study. The key characteristics of these four suppliers of export-quality dyed thread are summarized in table 5. Two of the companies (Hilos SA and Rio Blanco) originated as for-profit companies, both manufacture and dye threads, and are located near Guatemala City. The other two companies (Chilam Balaam and Artexco) originated through donor programs, purchase the threads that they dye, and are located in Quetzaltenango. These two business models have both similarities and differences.

Hilos SA and Rio Blanco are cotton thread manufacturers that also dye thread. As shown in table 5, they are able to produce special order colors, but they require relatively large minimum dye lots. Their minimum dye lots are viewed as too large for most artisan-brokers, producer groups, and exporters, especially when developing new product lines that require much smaller amounts of thread.

There is a general sentiment among producer groups that private companies such as Hilos S.A. and Rio Blanco do not cater to the needs of small-scale businesses. They sometimes lose samples, do not keep client records, and may provide inconsistent product quality. In addition, their location in Guatemala City places them at a distance from where weavers and artisan brokers live and work, which increases the transactions costs of getting dyed threads to weavers. These thread sup-

pliers do not offer any additional services.

Chilam Balaam and Artexco are relative newcomers to the dying business. They entered the market in order to make export-quality dyed threads more accessible to weavers and producers groups. Both companies are located in Quetzaltenango, which is closer to the region where producers are concentrated, and they both offer relatively small minimum dye lots for special order colors. Chilam Balaam SA is a marketing spin-off and sister company of a non-profit organization that works exclusively with weavers. Artexco is a federation of crafts cooperatives that provides marketing and thread dying services. It is the only one of the four suppliers that sells ISO 9002 certified threads.<sup>15</sup> Both Chilam Balaam and Artexco are involved in providing market linkage services and training to producer groups.

### 3. FINANCIAL SERVICES

The most common financial services observed within the value chain are advances in cash and in kind. Cash advances of about 50 percent are considered standard practice when importers place orders with exporters. Exporters, in turn, usually provide a 50 percent cash advance to artisan-brokers and producer-group leaders, who use this cash advance to purchase threads and other raw materials for the producers. Artisan-brokers and producer-group

leaders provide these in-kind advances of thread at the time the production order is placed. For the most part, firms in the value chain receive final payment after the order has been fulfilled.

Although cash and in-kind advances are standard practice in the export market channel, artisan-brokers and producer-group leaders sometimes must seek alternatives. An artisan-broker indicated that he did not normally receive an advance from the exporter. Instead, he arranges a small line of credit (for up to one month) from his thread supplier in order to provide thread to producers. Leaders of a producer group also indicated that their buyer did not provide advances. In fact, two weeks after the delivery of the order, the producer group was still awaiting payment. Since this specific producer group invests five percent of revenues back into the association, they have this cushion to use when payments are late.

Producer groups and artisan-brokers have some limited access to financial services not related to the value chain. Some producer groups have bank accounts at commercial banks. This allows them to receive direct deposit payments from national and international buyers and to process checks. Other producers receive financial transfer services from transport and shipping companies. One producer organization indicated that it provided its members with small, individual working capital loans for purchasing fertilizer and to support retail activities. There was no mention of loans from other financial institutions.

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<sup>15</sup> The International Organization for Standardization (ISO) is the world's largest developer of standards for the quality, safety, and reliability of products and services ([www.iso.org](http://www.iso.org)).

Cash advances and in-kind advances address the working capital needs of firms in the value chain, but investment capital is not provided within the value chain. From the perspective of artisan-brokers and producer groups, there are a number of financial bottlenecks that are not addressed by cash and in-kind advances:

**Table 5: Suppliers of Export-Quality Dyed Threads in Guatemala**

Company Name	Legal Structure	Min. Dye Lot	Services Provided	Location
Hilos SA	Private company originated as for-profit entity	60 lbs.	<ul style="list-style-type: none"> <li>▪ Manufacturing of export-quality thread</li> <li>▪ Dying services</li> <li>▪ Retail</li> <li>▪ Wholesale</li> </ul>	Guatemala City
Rio Blanco	Private company originated as for-profit entity	300 lbs.	<ul style="list-style-type: none"> <li>▪ Manufacturing of export-quality thread</li> <li>▪ Dying services</li> <li>▪ Retail</li> <li>▪ Wholesale</li> </ul>	Guatemala City
Chilam Balaam	For-profit marketing arm of a non-government organization	20-60 lbs.	<ul style="list-style-type: none"> <li>▪ Dying services</li> <li>▪ Retail</li> <li>▪ Training, market linkages, trade fairs, product design, visits to retailers</li> </ul>	Quetzaltenango
Artexco	Limited liability company associated with a national cooperative	25 lbs.	<ul style="list-style-type: none"> <li>▪ Dying services</li> <li>▪ Retail</li> <li>▪ Market linkages, representation, trade fairs, product design, E-commerce</li> </ul>	Quetzaltenango

- Consignment freezes capital. When working within the tourist and exclusive shop value chains, one way to sell is to place merchandise in the retail stores on consignment. Placing merchandise on consignment causes a cash flow problem because revenue is delayed until the goods are sold. Capital locked in merchandise on consignment also displaces capital for investment.
- Development of new product lines is costly. One NGO leader indicated that it can cost \$5000 to develop a new product line, which can play a crucial role in attracting attention at international trade fairs.

These investments are both large and risky, since there is no guarantee that new product lines will generate orders.

Producers' limited access to investment capital can be a constraint to upgrading investments, such as purchasing a foot loom, establishing a permanent market stall or retail outlet, purchasing marketing services (e.g., brochure design and development), purchasing training, and purchasing information and communication technology equipment.

#### 4. ENABLING ENVIRONMENT

The regulatory environment creates an important distinction between resident exporters and traveler-exporters (see

value chain map, figure 2). Resident exporters must have export licenses and follow standard exporting rules. This includes the payment of approximately 19 percent of the cost of the final product to cover the value-added tax (VAT) and other taxes and fees related to exporting. Traveler-exporters, on the other hand, can take advantage of a special export category that permits them to export products without paying the additional 19 percent of the purchase price of the product. The special export category provides a once-a-year exemption for individuals to export limited amounts of final products (value up to \$500.00 and weight up to 90 pounds). The exemption is valid for

foreign passport holders and holders of Guatemalan identity cards (*cedulas*).<sup>16</sup>

Until 2003, there was little enforcement of the provision limiting the use of the exemption to only once a year. Some traveler-exporters would come six or more times each year and export products without paying the VAT. Recent increased enforcement of the annual limitation has received a mixed reaction. On the one hand, resident exporters are relieved because they view traveler-exporters as unfair competition doing business outside the formally established export regulations. In real terms, the products sold overseas by licensed resident exporters are 19 percent more expensive.

On the other hand, producers, producer groups, and artisan-brokers are sensing a reduction in the number of traveler-exporters coming to Guatemala as well as a reduction in the volume of repeat orders. Tighter enforcement of export regulations may be one reason that traveler-exporters are purchasing fewer textile handicrafts from Guatemala. Producers, producer groups, and artisan-brokers have a negative view of this change in the enabling environment since many of them depend on traveler-exporters to provide them with direct commercial contacts outside of Guatemala.

According to producers, they are also seeing fewer tourists and traveler-exporters because of the increases in violent street crime in the past several years. Robberies and assaults have become more common, especially in Gua-

VAT rarely occurs. This has the effect of increasing the cost of Guatemalan exports, making them less competitive relative to textile handicrafts from other countries.



temala City, and there have been several well-publicized cases of attacks on tourists and visiting students in tourist areas away from the capital. Guatemala's growing reputation for violent crime is having a negative effect on the number of tourists and traveler-exporters who come to visit, which reduces the level of sales in these market channels.

Another issue related to the regulatory environment has to do with the payment of the VAT on imported inputs. Currently, VAT must be paid on all imported inputs, which includes all of the dyes used in the export channel, as well as a number of other types of imported materials, such as silk threads and leather, which are combined with traditional textiles to produce new product lines. While there is a legal provision allowing exporters to register to receive a return on any VAT paid on imported inputs, in practice the return of the

<sup>16</sup> Source: *Procedimiento Por Tipo de Exportación*, Government of Guatemala (<http://www.infomipyme.com/Docs/GT/OfflineExportacion/tipoexpo.htm>).



## IV. IMPLICATIONS OF THE FINDINGS

The previous section addressed the first objective of the study, which was to provide a detailed description of the Guatemalan textile handicrafts value chain, including information on the structure of the value chain, the relationships between firms, and the roles and opportunities for MSEs in the value chain. This final section addresses the second objective of the study, which is to explore the relevance of a set of research hypotheses related to vertical relationships, horizontal relationships, and MSE upgrading decisions (appendix 1). This exploration is preliminary and will be complemented by the results from the subsequent quantitative study, which will include statistical tests of the hypotheses. In addition, this section summarizes some of the implications of these findings with respect to the opportunities for improving benefits to MSEs and the competitiveness of the value chain. The paper closes with a brief discussion of implications for future studies of the value chain.

### A. SUMMARY OF FINDINGS RELATIVE TO HYPOTHESES

#### 1. VERTICAL RELATIONSHIPS

##### a. Statement of Hypotheses

**H.1:** Risk in vertical relationships can be reduced by strengthening governance.

**H.2:** Trust in vertical relationships can be increased by improving information.

**H.3:** Lead firms will be more willing to form vertical relationships with MSEs if the lead firms' transaction costs can be reduced.

##### b. Discussion of Findings

Buyers at every level of the value chain—importers, exporters, shop owners, market vendors, and artisan-brokers—manage the risk of commitment failure by moving away from relationships based on market governance and moving toward relationships based on network governance (hypothesis H.1). However, a surprising finding was that exporters and artisan-brokers do not seek to establish captive relationships with their suppliers. Instead, they try to maintain a broad network of suppliers in order to have access to different populations and different weaving skill sets. Since buyers cannot fully employ all the suppliers in their network, they sometimes encourage suppliers to find alternative buyers.

There was limited and inconsistent evidence on the use of formal contracts at the producer level and artisan-broker level (hypothesis H.1). A few written contracts were observed, but they appeared more to serve the purpose of specifying product details rather than to provide a means for legal contract enforcement. The interviews uncovered no examples of the use of the courts to enforce contracts. The role of formal contracts and contract enforcement in reducing the risk of commitment failure will be explored in the quantitative component of the study.

The first arm's-length transactions between buyers and suppliers are kept relatively small. Trust is built over time by taking a series of increasingly larger "riskable steps" (hypothesis H.2) in the form of larger orders. Even leaders of producer groups start by giving new members small orders until leaders can build confidence in a new member's ability to make timely delivery of quality products. Through a number of face-to-face encounters, buyers and suppliers build trust over time. In addition, these face-to-face encounters help buyers and sellers develop linking social capital (hypothesis H.1). This result was especially noticeable in some of the relationships between exporters and artisan-brokers, which appear to be longstanding and mutually beneficial personalized relationships across social classes.

The initial evidence from the qualitative study did not indicate that trust in vertical relationships was necessarily built on transparency about the distribution of rents in the value chain (hypothesis H.2). Questions related to this topic have been included in the quantitative study, which should provide additional information. Most firm owners seem to have a general understanding about the risks faced by other firms in the value chain, with the possible exception being that some exporters seem unaware of how weavers' commercial behavior might be affected by their low and unstable household income levels.

The transaction costs of conveying new design information appear to be so high that exporters have no choice but to work with commercial intermediaries or

effectively led producer groups (hypothesis H.3). As the scale of the exporters' operations increases, the number of intermediary layers between the exporter and the weavers also increases. Some exporters who work with producer groups report that there are high transaction costs associated with improving the effectiveness of these groups, while other exporters refuse to work with producer groups for precisely this reason.

There was substantial evidence in the qualitative study to indicate that information and communication technology has reduced the transaction costs in vertical relationships between firms (hypothesis H.3). Modern communication technologies, including email, fax, and cell phones, are essential tools for connecting exporters and retailers with their suppliers. These new technologies are used to convey order specifications, check on the progress of orders, and facilitate the delivery of embedded services.

## 2. HORIZONTAL RELATIONSHIPS

### a. Statement of Hypotheses

**H.4:** MSE owners will be more willing to form horizontal relationships if the MSEs' transaction costs can be reduced.

**H.5:** Trust in horizontal relationships can be increased through organizational innovation and improvements in human capital.

**H.6:** Social capital plays an important role in the successful formation of horizontal relationships between MSEs.

### b. Discussion of Findings

The findings from the qualitative study seem to indicate that transaction costs play a negligible role in influencing MSE owners' willingness to form horizontal relationships (hypothesis H.4). To the extent that participation in a group opens up new market opportunities, individual producers are eager to incur the relatively low level of transaction costs associated with belonging to a group. While direct investigation of this hypothesis was limited in the qualitative study, the survey data should provide information that can be used to statistically test this hypothesis.

Lack of trust appears to be the greatest constraint to the formation of horizontal relationships between weavers (hypothesis H.5). Several of the NGOs operating as exporters have developed organizational innovations to help improve trust by removing some of the opportunities for group leaders to engage in opportunistic behavior. The producer groups with formal record keeping and rotating leadership appear to function better than those without, although there were few total observations in the study. Widespread illiteracy and many group members' inability to speak Spanish make it much more difficult to rotate group leadership.

While most producer groups interviewed for this study were homogeneous with respect to ethnicity, not all were. Unfortunately, sharing the same language and culture and living in the same small village do not seem to provide a very strong deterrent to opportunistic behavior (hypothesis H.6). In other words, in-born social capital does not, by itself, seem to provide a sufficient basis for building trust in horizon-

tal relationships. At the same time, there was no evidence that bonding social capital created any barriers to investment.

In summary, only hypothesis H.5 received strong support by the observations in the qualitative study. All three of the hypotheses related to horizontal relationships will be tested using the survey data. The combined results will be used as the basis for deciding how the hypotheses should be revised prior to their use in subsequent country studies.

## 3. UPGRADING DECISIONS

### a. Statement of Hypotheses

**H.7:** MSE owners base their upgrading decisions on their assessment of the expected returns and risks to upgrading.

**H.8:** Upgrading can be encouraged by strengthening the linkages between firms.

**H.9:** Lack of information is a critical barrier to upgrading.

### b. Discussion of Findings

Producers generally lack the information they need to estimate the expected returns to upgrading decisions (hypothesis H.9). This is certainly the case with process upgrading involving the adoption of the foot loom, where lack of information appears to provide a critical barrier to upgrading. The size of the investment needed to purchase the foot loom is prohibitive relative to producers' income and asset levels (hypothesis H.7). In evaluating this alternative, producers are heavily influenced by assurances from their buyers that

they can count on a steady flow of future orders.

There are two situations in which lack of upgrading information does not appear to be much of a problem. In network-type governance relationships in the export channel, MSEs receive extensive design information from their buyers (hypothesis H.8). This design information is an embedded service that facilitates product upgrading by these MSEs. In general, producers and artisan-brokers participating in the value chain also have at least some of the information they need to calculate the expected returns to functional and inter-chain upgrading. What tends to be missing, on the other hand, is information about how to find buyers.

## **B. STRATEGIES FOR IMPROVING BENEFITS TO MSEs**

### **1. INCREASING RETURNS TO WEAVERS**

Strategies for improving the benefits that weavers receive from their participation in the value chain relate to increasing the value of current income streams, opening up potential new income streams, and improving the stability of income. During the course of the study, several possible considerations emerged related to weavers' ability to derive greater benefits within the value chain:

- Producers indicate that they do not receive their highest unit returns in the export market channel, and that the volume of export orders they

receive can fluctuate widely. Also, as long as their total income levels remain relatively low (near the poverty line), it is likely that weavers will prefer to combine income from more than one channel as a diversification and risk management strategy. Given these considerations, the popular and tourist market will probably continue to be the most important income source for the majority of weavers in the near future, providing regular cash flow and direct contact with buyers.<sup>17</sup>

- Only some weavers receive the kinds of embedded services that facilitate upgrading. Many of the other weavers do not have access to the kinds of embedded or stand-alone business services that would be needed to promote upgrading opportunities in each of the market channels.
- The fact that each different region and/or ethnic groups uses different weaving techniques provides an opportunity for regional branding based on traditional abilities. This would help weavers with product differentiation, may provide bene-

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<sup>17</sup> While the number of weavers participating in each market channel is unknown, it is possible to estimate the number of weavers currently supported by the export channel based on extrapolation: If there are 100 exporters, and each exporter provides orders reaching 500 producers, then the total number of producers supported by the export market channel is approximately 50,000, which represents seven percent of the estimated 700,000 weavers.

fits in the fair trade market, and could be used to add depth to any national branding efforts (see below).

- With the growth of cultural and educational tourism comes a potential opportunity to provide new sources of income for weavers who demonstrate and/or train tourists in traditional weaving techniques.
- General improvements in primary education, transportation infrastructure, and public market information would help weavers overcome obstacles to value chain participation that are associated with illiteracy, geographic isolation, and lack of information.

## **2. ENTERPRISE DEVELOPMENT FOR ARTISAN-BROKERS AND SHOP OWNERS**

Opportunities to benefit MSEs extend beyond the producer level, since MSEs are heavily represented at the wholesale and retail levels of the value chain. Artisan-brokers and shop owners in the popular and tourist market operate MSEs, usually on a full-time basis and often employing additional workers.

Strategies to promote the growth and development of these enterprises could have positive multiplier effects within the handicrafts value chain, the tourism value chain, and throughout the general economy. Because these firms perform many functions, their owners could benefit from a variety of financial and non-financial business services, including working capital loans, design services, communication services, and training in ICT, business management, bookkeeping, and basic literacy.

### 3. IMPROVING THE EFFECTIVENESS OF PRODUCER GROUPS

Producer groups can open the door to functional upgrading by weavers, helping them to earn higher product prices and obtain cheaper inputs and business services. Unfortunately, producer groups appear to be the part of the value chain with the most challenging trust issues. These groups need to be strengthened in order to become more effective participants in the value chain. A strategy for improving the effectiveness of producer groups would include several components:

- Training in group development, group management, record keeping, leadership skills, ethics, and conflict resolution.
- Improved access to financial and non-financial services, as listed above for artisan-brokers and shop owners.
- Primary education and adult literacy projects to reduce the level of illiteracy among group members.
- Compilation and dissemination of organizational innovations currently found in the value chain, which constitute potential strategies for overcoming the obstacles to horizontal cooperation and coordination between producers.

### C. STRATEGIES FOR ENHANCING THE COMPETITIVENESS OF THE VALUE CHAIN

The competitiveness of the value chain as a whole is a precondition for creating sustainable opportunities that benefit MSEs. While the scope of this study did not include an overall assessment of competitiveness of the value chain, a few potential strategies for increasing value chain competitiveness emerged during the field work. Most of the ideas and strategies described in this section were suggested by one or more value chain participants during the interviews conducted for the study.

#### 1. IMPORTANCE OF QUALITY-BASED COMPETITION IN THE EXPORT CHANNEL

Guatemalan textile handicrafts currently face stiff competition from lower-priced textiles exported from China, India, and Indonesia. Production costs for Guatemalan textiles appear to be higher, primarily due to the low labor productivity of the back strap loom technology. One possible strategy for improving the competitiveness of the Guatemalan textile handicrafts value chain in the global market would be to establish a unique market position based on promoting the quality of its products. A strategy of combining the products from the back strap loom with other, less labor intensive, products could be used to overcome the problem of low labor productivity in back-strap weaving while still capitalizing on the social and cultural significance of traditional weaving in Guatemala.

In the face of increasing competition from lower-priced textiles, there is interest in the use of the foot loom as a lower cost alternative to production on the back strap loom. However, it is unclear whether moving to the foot loom is a good long-term strategy for improving the global competitiveness of the value chain. Although foot-loomed products can be produced more cheaply (due to less labor input), they are still not as cheap as similar fabrics produced in India, China, and Indonesia.

Instead of a strategy based solely on moving almost exclusively to the foot loom, Guatemala's long-run competitive strategy might be better enhanced through a combination of approaches:

- A national branding campaign promoting the quality, aesthetic beauty, and cultural significance of products produced on the back-strap loom might be a successful strategy for creating an effective niche market. This would require some cooperation among exporters and the development of a certain level of national branding expertise.
- Future exports may rely increasingly on buyers who respond to non-price characteristics, such as fair trade buyers, museum stores, and wealthy buyers seeking high-quality, one-of-a-kind fashion and home accessories.
- Given the advantages to exporters of working with an overseas distributor, the development of similar market linkages for exporters who do not currently have these types of relationships could help to improve

the volume and stability of export sales.

- Labor-related production costs could be reduced by developing single products that showcase smaller pieces of intricate backstrap products used in combination with larger pieces of lower cost, foot-loomed products.
- In addition, some exporters are successfully increasing value added through the development of new products that combine hand-woven textiles with non-textile materials, such as wood, leather, glass, and acrylic.
- A national certificate of origin might help to protect the Guatemalan brand and prevent unfair “copy cat” competition. This certificate of origin could be combined with efforts to create stronger buyer recognition for products “made in Guatemala.”

## **2. ROLE OF TOURISM IN STRENGTHENING THE DOMESTIC MARKET CHANNEL**

The future of the textile handicrafts value chain appears to be linked to the future of Guatemalan tourism. The popular and tourist market provides weavers with a sales base that they rely on to generate a steady cash flow from their weaving. Recent upsurges in both international terrorism and violent crime at the national level have had a dampening effect on tourism. This has also had a negative effect on sales of textile handicrafts. A reduction in violent street crime would have a beneficial effect on both sectors.

There is a two-way relationship between textile handicrafts and tourism. Not only can increased tourism benefit sales of textile handicrafts, but the cultural characteristics of Guatemalan weaving can be used to promote increased tourism. Traditional weaving can be “sold” as part of the Guatemalan cultural package, along with the opportunity to purchase unique products. The development of mini-tours and courses centered on weaving could be used to extend the average stay of tourists, increase the average handicrafts-related sales to tourists, and thus expand the income that can be generated in Guatemalan tourism.

Tourists are not the only buyers in the domestic market. Exclusive shops cater to a well-to-do clientele of Guatemalans and Central Americans. Recent experiments with placing textile handicrafts in Guatemalan supermarkets and departments stores and promoting them on the basis of national pride and national identity has raised the possibility of expanding the domestic sales base to include more middle-class Guatemalans.

## **3. STEPS TO IMPROVE THE BUSINESS ENVIRONMENT**

There are several unrelated steps that could be taken to improve the business environment for firms in the value chain by reducing costs and opening markets:

- The cost of producing textile handicrafts could be reduced through enforcement of the provision allowing the return of the VAT paid on imported inputs, including dyes and other materials

combined with textiles to increase the value of products.

- Exporters would be able to respond more rapidly to changes in market demand if the bottleneck associated with the availability of special order dyed thread were alleviated. One way to start this process might be to facilitate networking between the four dyed thread suppliers and major exporters in the value chain. There seems to be a lack of effective communication between these categories of firms.
- Several exporters claimed that the cost of shipping exports from Guatemala is higher than shipping costs for other CAFTA countries. If this is true, then it may be possible to formulate an industry-wide strategy for lowering shipping costs.

## **D. IMPLICATIONS FOR FUTURE STUDIES**

One of the objectives of this study was to provide background information and set the stage for a second, quantitative component to this study. Much of the knowledge gained from the qualitative work has already been embedded in the design of the quantitative study.<sup>18</sup> This final section summarizes some of the general implications of the findings for

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<sup>18</sup> The quantitative component of the study consisted of a survey administered to MSE producers and to buyers in both the textile handicrafts and horticulture value chains. The field work for the survey was completed in May 2005 and it is anticipated that the final report will be available through AMAP in late 2005.

the quantitative component of this study as well as for independent studies related to this value chain.

This field study has generated important qualitative information about the Guatemalan textile handicrafts value chain, the firms operating in it, and the relationships between those firms. It has demonstrated the usefulness of the conceptual framework for understanding and interpreting the behavior of micro- and small enterprises. In addition, the field study has helped to confirm and strengthen the relevance of the research hypotheses.

However, the picture of the value chain provided by the qualitative study is incomplete. Additional quantitative information is needed about the relative size and importance of several aspects of the value chain. As indicated in the implications section, several critical pieces of information are still unknown. This information is needed to understand the future opportunities for MSEs in the value chain. This closing section lists some of these critical areas for future research.

**Relative size of the three market channels:** There is no information on the percentage of weavers who sell to each market channel. It is likely that many weavers sell to more than one channel, but the percentage is unknown. Similarly, there is no information on the relative value of the products flowing into each of the market channels. Without this information, it is impossible to know the relative importance of each market channel in the value chain.

**Expected returns to producers:** There is no reliable information on the average economic benefits to weavers of participating in the value chain and of participating in specific market channels. Within the industry, there are questions about whether weavers would be willing to dedicate more labor time to export market channels and whether people will continue to pursue weaving as an income-generating activity. Information on the expected returns to producers could help to answer those questions.

**Frequency of problems in horizontal relationships:** Producers can gain several benefits from participating in producer groups, but they also face several risks. The anecdotal information from the qualitative study indicates that problems occur frequently in horizontal relationships, that they are serious, and that they prevent producers from working together effectively. With additional information, it may be possible to determine the nature and frequency of problems, information that could be used to improve the options for using producer groups to increase the returns to producers by connecting them directly to exporters.

**Implications of process upgrading to use of the foot loom:** One way to increase the productivity of labor in the value chain is for weavers to upgrade from the back strap loom to the foot loom. However, at this time, there is not enough information about how many weavers currently use each type of loom, the relative benefits to weavers of each technology, or how many households own or have access to a foot loom. In addition, the qualitative study

had mixed findings about whether or not women would use the foot loom; additional information is needed to assess the gender implications of this form of upgrading.

**Role of weaving in the household economic portfolio:** The results from the field study indicate that weaving is a part-time activity and that it is one of a number of economic activities within the household economic portfolio. It appears likely that some households would be willing to devote more time to weaving, if orders through the export market channel were more plentiful. However, their willingness to do so would depend on the relationship of weaving to other household economic activities. Additional qualitative and quantitative data could help to clarify the role of weaving in the household economic portfolio.

**Intergenerational skills transfer:** There is concern among exporters that the productive base of skilled weavers is beginning to dwindle. On the one hand, there are reports of villages in weaving areas becoming depopulated as entire families leave the country and move to the U.S. (the Totonicapan area is most often cited as an example of this). On the other hand, as girls' opportunities for attending secondary school increase, it is expected that fewer will engage in weaving as an income-generating activity. Additional information is needed on the current rate of intergenerational skills transfer and the relationship of girls' education levels to the choice of weaving as an occupation.

**Number of weavers in Guatemala:** Finally, no one really knows how many weavers there are in Guatemala, al-

though the estimates range from 700,000 to one million. These estimates are based on rough extrapolations from a 1978 census of artisans, which may have undercounted home-based micro-enterprises. If there really are 700,000 weavers in Guatemala, then weavers represent about five percent of the country's population. They also represent fifteen percent of the country's labor force, based on a 2002 total national labor force of 4.5 million people.

It appears that a significant number of Guatemalans are involved in the production of textile handicrafts, but statistically valid information to confirm this impression is not available.

Additional information is needed to fill out the available picture of the Guatemalan textile handicraft value chain. A better understanding of the value chain would help to identify opportunities for improving the benefits to MSEs from

their participation. Yet, even without this additional information, it seems clear that MSEs play an indispensable role in the value chain and that the future competitiveness of Guatemalan textile handicrafts depends on effective relationships between firms at all levels of the value chain and on opportunities for firms to continue to upgrade in response to changing global demand.



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# APPENDICES

## APPENDIX I: DETAILED RESEARCH HYPOTHESES FOR AMAP BDS K&P COMPONENT A

### A. Enhancing Inter-firm Cooperation and Coordination

*Objective: Understand the constraints and barriers to improved inter-firm cooperation and coordination, including the effects of governance, in order to design interventions that create win-win relationships between firms in value chains.*

#### Vertical Relationships

##### **H.1. Risk in vertical relationships can be reduced by strengthening governance.**

Hypothesis H.1. The risk to each firm that the counterpart firm in a vertical relationship will fail to meet its agreements (i.e., the risk of commitment failure) can be reduced by strengthening governance through alternative means, including

- a. the development of linking social capital,
- b. the development of stronger network types of (firm-on-firm) governance,
- c. increasing the formality of contracts, and
- d. strengthening the legal enforcement of contracts.

##### **H.2. Trust in vertical relationships can be increased by improving information.**

Hypothesis H.2. Trust between firms in vertical relationships can be increased by improving the information that firms have about each other in several ways, including

- a. building information over time about the trustworthiness of counterpart firms by taking a series of increasingly larger “riskable steps,”
- b. increasing the amount of face-to-face interaction between counterpart firms,
- c. increasing transparency about the distribution of rents in the value chain, and
- d. increasing transparency about the risks faced by firms in the value chain.

##### **H.3. Lead firms will be more willing to form vertical relationships with MSEs if the lead firms’ transaction costs can be reduced.**

Hypothesis H.3. Transaction costs are a major constraint to lead firms forming vertical relationships with MSEs, but the transaction costs that lead firms incur in working with large numbers of dispersed MSEs (i.e., the costs of communication, knowledge sharing, contract management, production coordination, etc.) can be reduced through the use of

- a. commercial intermediation (i.e., private intermediaries who efficiently manage transaction costs and are reimbursed by receiving a share of the rents),
- b. alternative institutional and/or organizational arrangements that coordinate activities between MSEs, and
- c. cost-effective information and communication technology (ICT).

#### Horizontal Relationships

**H.4. MSE owners will be more willing to form horizontal relationships if the MSEs' transaction costs can be reduced.**

Hypothesis H.4. Transaction costs, especially the opportunity cost of time, are a major constraint to MSE owners forming horizontal relationships. There are several ways that these transaction costs can be reduced or justified, including

- a. using alternative organizational structures,
- b. using cost-effective information and communication technology (ICT),
- c. opening new, profitable market opportunities (i.e., the increased revenue from the new market opportunity outweighs the costs of forming new horizontal relationships), and
- d. providing entry to competitive environments that value innovation over price.

**H.5. Trust in horizontal relationships can be increased through organizational innovation and improvements in human capital.**

Hypothesis H.5. Lack of trust is a critical barrier to the formation of horizontal relationships between MSEs, and this lack of trust is based on prior experiences with fraudulent and opportunistic behavior on the part of leaders and other group members (i.e., lack of trust is rational). Trust in horizontal relationships can be improved by reducing the scope for opportunistic and fraudulent behavior in several ways, including

- a. using organizational innovations that limit the power of leaders (e.g., rotating group leadership, sharing decisions, increasing availability of information to group members),
- b. formalizing record keeping,
- c. providing training in leadership and group management skills, and
- d. increasing the human capital of all group members so that leadership does not always fall to a few individuals (i.e., increasing literacy, numeracy, language skills, and market knowledge).

**H.6. Social capital plays an important role in the successful formation of horizontal relationships between MSEs.**

Hypothesis H.6. Social capital can have both positive and negative effects on the formation of horizontal relationships between MSEs:

- a. in-born social capital reduces the transaction costs of forming horizontal relationships because firm owners are more likely to trust each other and less likely to behave opportunistically;
- b. high levels of bonding social capital can create barriers to investments in acquired forms of capital, including both bridging social capital and physical capital.

**B. Encouraging Business Upgrading Among MSEs**

*Objective: Understand the constraints and barriers to MSE upgrading, in order to design interventions that encourage higher levels of upgrading among MSEs and make them more effective partners in the value chain.*

**H.7. MSE owners base their upgrading decisions on their assessment of the expected returns and risks to upgrading.**

Hypothesis H.7. MSE owners make their upgrading decisions based on their beliefs about future net returns (profits). Because future net returns are uncertain, MSE owners must consider both the estimated level of expected returns and the range (variability) of possible future net returns:

- a. MSE owners who compete in undifferentiated product markets are less likely to upgrade their businesses than those working in differentiated product markets, because expected returns to upgrading in differentiated product markets are higher (due to higher increases in revenue).
- b. MSE owners will be less willing to upgrade if it requires them to invest in assets that have a high degree of asset specificity and they lack credible assurances of repeated future transactions, because expected returns are lower (due to high investment costs combined with the risks of low future revenues).
- c. MSE owners with lower household incomes and assets will be less willing to upgrade than MSE owners from wealthier households if the range of possible future net returns includes negative net returns and/or if they lack investment capital (i.e., they cannot afford to make current investments in upgrading in order to generate higher returns in the future).

**H.8. Upgrading can be encouraged by strengthening the linkages between firms.**

Hypothesis H.8. Vertical and horizontal linkages between firms help to improve the expected returns and lower the risks to upgrading:

- a. MSE owners who are willing and able to invest in acquired social capital (networking) will be more likely to upgrade their businesses than owners who are unwilling and/or unable to invest in acquired social capital.
- b. MSE owners who are linked to lead firms through network types of governance structures are more likely to invest in upgrading than MSE owners linked to lead firms through market governance structure.
- c. MSE owners will be more willing to upgrade if they observe successful examples of upgrading among MSE owners with whom they share bonding social capital.

**H.9. Lack of information is a critical barrier to MSE upgrading.**

Hypothesis H.9. MSE owners in developing countries often lack the information that would allow them to understand the possible advantages to upgrading:

- a. Many MSE owners lack basic awareness about the opportunities that exist for upgrading their businesses.
- b. MSE owners who are aware of upgrading opportunities often underestimate the expected returns to upgrading because they lack the information they need to calculate expected returns accurately.
- c. MSE owners consider transaction costs, especially the costs of the time they would need to spend gathering information about new opportunities, to be a major obstacle to upgrading their businesses.

## APPENDIX 2: RESEARCH METHODS

A total of 70 individuals were formally interviewed for this study. Of these, ten were representatives of government, donor, and support organizations with no direct commercial stake in the value chain. The remaining 60 informants were firm owners and producer-group leaders operating commercially at different levels of the value chain. A full list of the participants in the study is provided in appendix 3.

The methods used to collect data from the 60 commercial participants in the value chain are summarized in table 6. The two most important methods used were 1) structured individual interviews and 2) focus group interviews. In addition, several other research techniques were used. These included the use of the value chain map as a visual discussion aid, a subjective rating of the competitiveness characteristics of producers, and an abbreviated domain analysis conducted within the context of the focus group discussions. Each of the research methods used in this study is described in more detail in the sections immediately below, beginning with the methods used in the individual interviews.

**Table 6: Data Collection Methods**

Data Collection Method	Number of Informants					
	Exporter	Shop Owner/ Designer	Artisan-Broker	Producer Group Leader	Producer (Weaver)	Input Supplier
In-Depth Interview	7	4	5	7	2	4
Value Chain Map	7	4	5	7	0	4
Competitiveness Rating	5	0	0	4	0	0
Focus Group Discussion	0	0	0	0	31	0
Total Informants in Category	7	4	5	7	33	4

### 1. Methods Used in Individual Interviews

Structured interviews were conducted with individual participants in the value chain based on detailed interview guides. Distinct interview guides were prepared for each of five categories of informants: exporters, designers/exclusive shop owners, artisan-brokers, producer-group leaders, and input suppliers. The translations of the interview guides are provided in appendix 3. In addition to the 25 formal interviews, there were two informal, but lengthy, individual interviews with producers.

The individual, in-depth interviews consisted of a series of open-ended questions, with follow-up probes for each question. These questions focused on the structure of the value chain, the relationships between firms in the value chain, and how market information and product design are transmitted through the value chain. The interviews lasted for one to three hours, with most interviews being about two hours long. The interviews were held at the informant's place of business.

At the beginning of each interview, the informant was shown a copy of the current version of the value chain map, which the interviewer explained. All informants were quick to understand the value chain map, which illustrates the categories of firms in the value chain and shows how the firms are related to each other. Informants were able to identify their own location on the value chain map and provided useful comments about improving the map. The use of the value chain map at the beginning of the interview helped to establish a common frame of reference between the interviewer and the informant, making it easier for the informant to understand the purpose of the interview. Informants' comments provided useful information for validating and refining the value chain map.

Another research technique used during the individual interviews was to ask informants to rate the competitiveness of producers in terms of the following six categories:

- price, from the buyers perspective
- quality of the product
- speed between order and delivery
- flexibility to produce different size orders
- on-time delivery according to prior agreement
- ability to innovate in design

For each of these facets of competitiveness, the informant was asked to rate producers using a five-point, Likert-type scale, ranging from “very poor” to “very excellent”. Only two categories of informants were asked to complete this exercise: exporters and leaders of producer associations.

The purpose of the rating exercise was to identify gaps in perception about the competitiveness of producers in the export market channel. Exporters were asked to generalize across the producers from whom they sourced their products. Leaders of producer associations were asked to generalize across the producers who marketed their products together through the association. The gaps in perception were identified by plotting the average responses from the two groups of informants on a star/radar diagram.

## 2. Methods Used in Focus Group Interviews

Four focus group interviews were conducted with producers of textile handicrafts, with a total of 31 producers participating. These structured group discussions were based on a written interview guide (see appendix 4) and led by a professional focus group moderator. The focus group interviews were held in Panajachel, which provided a central location for drawing producers from a wide area around Lake Atitlán.

The focus group participants were identified from a list of producers in the Lake Atitlán area who had participated in a survey of handicrafts producers, which was in the previous year (Aragon and Associates 2003). Using information from the survey, participants were selected according to three characteristics: gender, average monthly sales, and level of involvement in the export market. All the

### Basic Interview Techniques

- Honesty and clarity about purpose of interview
- Early creation of common frame of reference
- Use of non-verbal cues to establish rapport
- Informant as expert and interviewer as student
- Respect for informant's time
- Careful planning and staying with purpose
- Use of insider's (*emic*) terms and categories
- Triangulation of data

focus group participants were women. Men were not included in the focus groups, because there were very few on the survey list and because women are the majority of weavers nationally.

The main difference in the composition of the focus groups was the producers' level of participation in export channels. Two of the focus groups were composed of weavers who sold a significant part of their products into export channels, and two of the focus groups were composed of weavers who sold very little or none of their products into export channels. The purpose of dividing the focus groups this way was to try and determine some of the differences in perceptions and circumstances between these two groups of producers. In order to control for differences in the level of sales and ensure that all of the focus group participants were heavily involved in weaving for sale, all four groups were composed of weavers who had reported at least Q500 (about US\$62) in their average monthly sales of textiles for 2002.

The main topics for the focus group discussions were

- perceptions about the current status of handicraft textile markets,
- types of textiles currently produced and type of technology used,
- role of textile handicrafts in the household economic portfolio,
- perceived differences between alternative marketing channels,
- relationships and experiences with buyers, and
- experiences and attitudes toward product and process upgrading.

The majority of the time was spent on the two topics of product marketing and upgrading. During the focus groups, the moderator elicited extensive information from the participants about the distinct ways they sell their products, what they consider to be the differences between these marketing channels, and the kinds of relationships that they have with buyers in each of these channels. This provided information for a domain analysis on the different ways to sell textile handicrafts, including information on participants' own (*emic*) dimensions of contrast and the researchers' (*etic*) dimensions of contrast, including differences related to risk, transaction costs, and social capital (Spradley 1979).

All of the focus group discussions were tape recorded and transcribed. The transcriptions were then reviewed and coded according to the following variables of interest: markets, relationships, trust, social capital, transaction costs, risk/assets, upgrading, technology, and business conditions. The results from the four focus groups were then merged to identify common themes.

Since all the focus group participants came from the Sololá and Lake Atitlán regions, the focus group results may not be representative of all textile handicraft producers. The area around Lake Atitlán attracts many international tourists, so the focus group participants have more opportunities to sell to tourists than do weavers in more isolated areas. On the other hand, the Sololá area straddles the Central and Western Highlands which, along with the Verapaces, are home to an estimated 90 percent of Guatemala's handicrafts producers (source: AGEXPRONT Handicrafts Commission). There were no men who participated in the focus groups, although men who weave on the foot loom participated in some of the producer association interviews.

### **3. Stakeholders' Seminar**

At the end of the three-week field research period, a formal seminar was presented as to "ground truth" the findings and conclusions. Firm owners and managers at all levels of the value chain attended the seminar, along with representatives of the Government of Guatemala, USAID, and AGEXPRONT. Half of the 15 people attending the seminar had been interviewed as part of the study. After the major findings and conclusions were presented, the seminar attendees participated

in a lengthy discussion about the findings and implications of the study. This discussion helped to point out areas where the study findings were incomplete or controversial. In general, the discussion at the seminar confirmed the validity of the main findings, which are presented in the next section.

## **APPENDIX 3: LIST OF INTERVIEW PARTICIPANTS**

### **Exporters**

Jordi Busom Pérez, Manager, Tesoros Mayas, Guatemala City  
Else Cuchet, Export Manager and Co-Owner, Dos Mundos, Guatemala City  
Amparo Montiel Murga, Manager and Owner, Modiane, Guatemala City  
Ian González, Manager and Owner, La Casa, Guatemala City  
Irma Zuleta, General Manager, De La Selva, San Juan del Obispo, Sacatepéquez  
Bayron Franco, Export Manager, De La Selva, San Juan del Obispo, Sacatepéquez  
Bruce Barclay, Exporter and Owner, Las Manos, Panajachel

### **Designers and/or Exclusive Store Owners**

Eric Ledoigt, Designer and Owner, In Situ (Mangleria), Antigua  
Milena Prem, Designer and Owner, Textura, Antigua  
Siggy Bataille Holbik, Owner, Casa de los Gigantes, Antigua  
Vey Smithers, Designer and Owner, Colibri, Antigua

### **Artisan-Brokers**

Laura Ajanel, Broker and Market Seller, Panajachel  
Julio Cesar Ajanel, Broker and Market Seller, Panajachel  
Juan Sicay Cúmay and José Sicay, Brokers and Market Sellers, Panajachel  
Rufino Caniz, Broker, Panajachel

### **Leaders of Producer Associations**

José Martín Pérez, Manager, San Antonio Palopó Cooperative, Sololá  
Dina Cholotio, Manager, Asociación Auto-Ayuda Chinimaya (ASOAC), San Juan La Laguna, Sololá  
Micaela Ujpan Mendoza, Artisan and President, ASOAC, San Juan La Laguna, Sololá  
Alida Pérez Santos, Artisan-Broker and President, Asociación Gremial Guatemalteca de Artesanos (AGGA), Antigua  
Marco Polo Coloma, Volunteer/Manager, AGGA, Antigua  
Candice Krummel, Founder and Artistic Director, Cojolya Association  
Jennifer Easter, Marketing Director, Tradiciones Mayas, Panajachel

### **Producers**

Brenda, Weaver and Market Stall Owner, San Antonio Aguascalientes, Sacatepequez  
Felipa, Weaver, San Antonio Palopó, Sololá  
31 Weavers in region around Lake Atitlán, Sololá (interviewed in 4 focus groups)

## **Suppliers of Inputs and Services**

Guadalupe Mazariegos de Recinos, Branch Director, Cropa Panalpina, Panajachel  
Oliver Hernandez, Assistant Manager, Hilos S.A., Villa Nueva  
Joaquin Alfonso, Manager, Artexco, Quetzaltenango  
Vivian Salanic, Manager, Chilam Balam, Quetzaltenango

## **Government, Donors, and Support Organizations**

Silvia Moreira, Executive Coordinator, Handicrafts Commission, AGEXPRONT  
Aida Hernandez, Marketing Coordinator, Handicrafts Commission, AGEXPRONT  
James Stein, Director, Central American Regional Office, USAID/Guatemala/TEA  
Glenda de Paiz, Program Management Specialist, USAID/Guatemala/CAP  
Kurt Rockeman, Regional Environment and Rural Diversification Officer, USAID/Guatemala/CAP  
Loren Stoddard, USAID/Guatemala/GDA  
Arno Loewenthal, Advisor and Head, Financial Systems Component, GTZ/Guatemala/Program for MiPYME Promotion  
Julio Reyes Sagastume, Vice Minister, MiPYME Development, Economics Ministry, Government of Guatemala  
Jorvy Díaz Reyes, Executive Director, Vice Ministry for MiPYME Development, Economics Ministry, Government of Guatemala  
Lucía Rivera de Gavarrete, BDS Director, Vice Ministry for MiPYME Development, Economics Ministry, Government of Guatemala  
Lane Pollack, Aid to Artisans

## APPENDIX 4: IN-DEPTH INTERVIEW GUIDES

### **Guide 1: EXPORTERS**

1. Introductions, purpose of in-depth interview and research.
2. What are the main products you sell?
3. *Show and explain the textile handicrafts value chain map.* What do you think of this illustration? How does it seem to you?
4. What changes do I need to make to the illustration?

#### Questions about Clients/Buyers

5. Who are your main clients (buyers)?
6. How did you first meet your clients?
7. How do you learn about your clients preferences? (*probes*: styles, designs, colors, materials, quality)
8. How would you characterize your relationships with your principal clients? (*probes*: independent, close, collaborative, that a lot of information passes between you, that the client is in charge)
9. Do receive any assistance/help from your clients? (*probes*: advance payments, design assistance, other)
10. What are the steps you usually take to ensure that you meet your clients' specifications, including delivery date and quality?

#### Questions about Suppliers/Producers

11. What are all the ways you source the products you sell? Who are your main suppliers?
12. Do you buy from individual producers, groups of producers, or intermediaries? How many suppliers do you work with?
13. If you have different types of suppliers, how would you characterize the differences between each type of supplier?
14. How do you communicate information to your suppliers about market demands, styles, designs, quality, etc.?
15. What are the difficulties producers have in making these changes?
16. How do you work with your suppliers to ensure that they satisfy your requirements for quality? What do you do to encourage them? What pressures do you apply?
17. What changes would you like to see producers/suppliers make?
18. Have you communicated this to them? How do they respond?
19. What can you (yourself) do to facilitate or demand these changes?
20. How would you rate the producers according to these six characteristics (explain the six competitiveness characteristics and the rating system)?
21. *If it was not mentioned before*, what is the role of designers in the textiles handicraft value chain?
22. What do you think of the competitiveness of the textile handicrafts value chain?

## **Guide 2: LEADERS OF PRODUCER ASSOCIATIONS**

1. Introductions, purpose of in-depth interview and research.
2. How did this association form and how has it evolved over time?

### *Questions about Members and Services*

3. How many members do you have? Are all of these members textile producers?
4. Do any specialize in certain types or stages of textile production?
5. What services do you provide to your members?
6. What are the advantages of being a member of this association?
7. Are all your members from the same ethnic (language) group?
8. Can someone from a different ethnic group join this association?

### *Questions about Sales and Markets*

9. Does the association coordinate the sales of their members' products? If so, how does this work?
10. Where does the association sell their products? (*probes*: local, tourist, shops, export)
11. Are individual members allowed to sell their products apart from the association?
12. How is the role of the association different from the role of artisan-brokers?

### *Questions about Design and Upgrading*

13. How do members of the association learn about new colors and designs that buyers want? How do they learn about market taste? How do they learn about the changes customers want?
14. What are the difficulties producers have in making these changes?
15. In what ways (why?) are producers reluctant to make these changes?
16. Are there any costs or risks to members in making changes? Do they earn more?
17. How does being a member of this association help producers to learn about the changes buyers want and make these changes?

### *Other Questions*

18. How does weaving fit in with the other activities of the household (i.e., the household economic portfolio)?
19. Is weaving usually a full-time or a part-time activity for your members? How does the part-time status of producers affect their ability to respond to orders? (*probes*: seasonality, type of income needed)
20. Can some weavers produce more rapidly than others? If so, why?
21. How would you rate the producers in your association according to these six characteristics (explain the six competitiveness characteristics and the rating system)?
22. Would you say that it is sometimes hard for members to trust the leaders of the association? Why or why not?

### **Guide 3: ARTISAN-BROKERS**

1. Introductions, purpose of in-depth interview and research.

#### Questions about Buyers/Clients

2. What are all the ways that you sell your products (market outlets)?
3. What are the differences between your clients? To whom do you prefer to sell? (*probes*: frequency, price, bargaining/negotiating costs, volume, quality)
4. How do you learn about the new colors, designs, and products that buyers want? How do you learn about market taste?
5. How did you first meet your clients/buyers?
6. Do receive any form of assistance/help from your clients/buyers? (*probe*: cash advances, threads, designs)
7. What steps do you take to meet your client/buyers specifications, including delivery date and quality?

#### Questions about Suppliers/Producers

8. What are all the ways you source the products you sell? Who are your suppliers?
9. What are the differences between the suppliers you work with? (*probe*: quality, price, punctuality, designs, volume, costs of collecting products, risks)
10. Which type of supplier do you prefer to source from?
11. Do you work with individual producers or groups of producers? How many suppliers do you work with?
12. How do you find suppliers? (*probe*: people you know, contacts, family, neighbors, language)
13. What services/help do you offer/provide your suppliers? (*probe*: thread, credit, designs)
14. How do you communicate new designs to your suppliers?
15. What are the difficulties producers have in making these changes?
16. In what ways are producers reluctant to make these changes?
17. Which market channels would you say are the most beneficial to weavers? (*probe*: volume, price, consistency)

#### **Guide 4: DESIGNERS/EXCLUSIVE STORE OWNERS**

1. Introductions, purpose of in-depth interview and research
2. *Show and explain the textile handicrafts value chain map.* What do you think of this illustration? How does it seem to you?
3. Where do you fit in this illustration?
4. Please describe all the ways that you work in this business. (*probe*: making and selling designs, managing the store, exporting)

#### *Questions about Clients/Buyers*

5. Who are your main clients (buyers)?
6. How did you first meet your clients?
7. How do you learn about your clients preferences? (*probes*: styles, designs, colors, materials, quality)
8. How would you characterize your relationships with your principal clients? (*probes*: independent, close, collaborative, that a lot of information passes between you, that the client is in charge)
9. Do you receive any assistance/help from your clients? (*probes*: advance payments, design assistance, other)
10. What are the steps you usually take to ensure that you meet your clients' specifications, including delivery date and quality?

#### *Questions about Suppliers/Producers*

11. What are all the ways you source the products you sell? Who are your main suppliers?
12. Do you buy from individual producers, groups of producers, or intermediaries? How many suppliers do you work with?
13. How do you find suppliers? (*probe*: contacts, family, neighbors, language)
14. If you have different types of suppliers, how would you characterize the differences between each type of supplier?
15. How do you communicate information to your suppliers about market demands, styles, designs, quality, etc.?
16. What are the difficulties producers have in making these changes?
17. How do you work with your suppliers to ensure that they satisfy your requirements for quality? What do you do to encourage them? What pressures do you apply?
18. What changes would you like to see producers/suppliers make?
19. Have you communicated this to them? How do they respond?
20. What can you (yourself) do to facilitate or demand these changes?

#### *Other Questions*

21. Do you sell the products in exactly the same form as you receive them from suppliers, or do you do any additional sewing, finishing, assembly, etc.?
22. What do you think of the competitiveness of the textile handicrafts value chain?

## **Guide 5: TRANSPORT/SHIPPING COMPANIES**

1. Introductions, purpose of in-depth interview and research.
2. How long has your business been working in this location?
3. Who are your clients? (*probe*: Guatemalans, foreigners)
4. Are some of your clients more important to your business than others?
5. How important are textile handicrafts to your business?
6. Where are you sending most textile handicrafts to? (*probe*: USA, Europe, Japan, other Central American countries)
7. Are you referring to value or volume of product?
8. *If is familiar with value of product*, Where do you get information on the value of the products you ship?
9. Suppose I am a new customer and I need to send a shipment of textile handicrafts to the USA. What are the steps or processes that I need to follow in order to send textiles overseas? (*probe*: what forms do I need to complete, do I have to declare the value, what information do I have to provide)
10. What are the physical ways that your company sends products? (*probe*: sea, air, land)
11. What is the fee structure? (*probe*: is it based on weight, value, volume, method of transportation)
12. What other services do you offer to clients? (*probe*: packaging, payment transfer)
13. If you offer services directly to foreigners who reside overseas, how would you describe a typical client?
14. How do you get orders from that type of client?
15. If you offer services to Guatemalans residing locally, how would you describe your typical client?
16. What percentage of your clients who reside locally have repeat buyers?
17. Do your clients who reside locally sell textiles that they produce themselves, do they sell textiles produced by others, or do they do both?
18. What have been the trends that you have seen in the textile handicraft market? (*Probe*: are there more people sending products overseas, are there more foreign buyers who reside overseas placing orders directly)

## APPENDIX 5: FOCUS GROUP MODERATOR GUIDE

1. Saludos, bienvenida, explicación de las reglas del juego.
2. Auto presentaciones. Ruptura del hielo.

### Tópico Inductivo

3. Estado Emocional, ¿Cómo está la situación de los productores de textiles en Guatemala actualmente?
4. ¿Cuales son los principales productos textiles que usted fabrica, qué tipo de telar utiliza para fabricar este tipo de textiles? (preguntar a cada participante)
5. ¿Además de fabricar artículos textiles tiene alguna otra ocupación o trabajo que le genere ingresos, Cuál? (preguntar a cada participante)
6. ¿Qué proporción del ingreso familiar ocupa la artesanía textil en su hogar? (preguntar a cada participante)
  - a) Todo el ingreso familiar proviene de los productos textiles
  - b) Más de la mitad de los ingresos provienen de los productos textiles
  - c) Menos de la mitad de los ingresos provienen de los productos textiles, pero siguen siendo un ingreso importante para el hogar
  - d) Los textiles no son un ingreso importante para nuestro hogar.

### Mercados y Compradores

(Usar Rota folio en las preguntas 7, 8, 9)

7. ¿En donde o a quiénes vende usted sus productos textiles actualmente? (Moderador mencionar sólo si es necesario: Al consumidor directamente, en el mercado o tiendas, a un artesano intermediario o artesano coordinador, a una asociación de productores, al exportador directamente, etc.)
8. ¿Conoce usted a algún productor que este vendiendo sus productos de forma diferente dentro de la comunidad o dentro del área, cuál es esta forma?
9. ¿Cuales formas de venta ha utilizado anteriormente para vender su producto? (Ejemplos: En el mercado, a un artesano intermediario, al exportador directamente, etc. Moderador averiguar si todas las formas de venta fueron mencionadas y apuntadas en el rota folio o si falta alguna.)
10. ¿Cuáles son las mayores diferencias entre cada una de estas formas de venta? (según Rota Folio)
11. ¿Qué forma de venta le parece a usted la mejor, Porqué? (según Rota Folio)
12. ¿Si deciden vender sus productos de otra forma a como lo hacen actualmente, cuál sería el problema principal que tendrían?
13. ¿De las formas de vender sus productos cuál...?
  - a) Se vende más / menos
  - b) Ha dejado más / menos ganancias
  - c) Ha tenido más / menos riesgos de perdida
  - d) Recupera su dinero más / menos rápido
14. De las formas de venta antes mencionadas cuál es la que le ocupa más tiempo en realizar la venta, ¿porqué? (Probe: viajar, buscar el comprador, cerrar el negocio, le crea más gasto, obtener información del comprador o del mercado, etc.)
15. ¿Según las opciones del Rota folio, cuál es la forma más común de encontrar a los diferentes tipos de compradores, cuales son los que regresan a comprar nuevamente, ha recibido alguna ayu-

da del comprador, cuál? (Probe: Materia prima, entrenamiento, crédito, diseños nuevos, información, etc.)

16. ¿Cambiaría usted de comprador si tuviera la oportunidad?

Adaptación a Nuevos Diseños y Colores

17. ¿Conoce usted a alguien o usted misma ha probado hacer cambios en colores, diseños o formas de tejer en sus productos?

18. ¿Qué cree que las motivó a hacer estos cambios?

19. ¿En que han consistido estos cambios específicamente? (colores, diseños, materia prima, forma de tejer, etc.)

20. ¿Los resultados qué obtuvo por hacer estos cambios, fueron buenos o malos, explique?

21. ¿Algún comprador le ha pedido nuevos diseños o cambios en el tejido para algún pedido en especial?

22. ¿En que han consistido estos cambios precisamente? (especificar: diseños, colores, tejidos, etc.)

23. ¿En qué tipo de venta es donde le piden más cambios? (Según Rota Folio)

24. ¿Realizan estos cambios Si / No, por qué?

25. ¿Cómo aprendió a hacer o ha realizar estos cambios en el tejido? (Probe: Recibe indicaciones del comprador, de la asociación, de la familia, le dan entrenamiento, los materiales, por su cuenta, etc.)

26. ¿Cuáles fueron los mayores problemas que tuvieron al realizar estos cambios en el tejido?

27. ¿Qué tipo de cambios son los que han sido más difíciles de realizar, por qué?

28. ¿Cree usted que vale la pena hacer estos cambios en los tejidos, Si / No por qué?

29. ¿Según su criterio existe algún riesgo al realizar cambios en los tejidos?

Productividad, Ingresos, Visión al Futuro

30. ¿Cómo cree usted que se podría aumentar la producción de artículos textiles, producir más en el mismo tiempo?

31. ¿Cómo se podrían mejorar las formas de tejer para que sea más rápida la elaboración de productos textiles?

32. ¿Qué se necesita para aumentar la producción, donde cree que podría conseguir esta ayuda?

33. ¿Qué esperan del futuro, que cambios van a ocurrir en el negocio de productos textiles estos cambios serán positivos o negativos, porque?

34. Muchas gracias, cierre, refacción, regalos.

**Accelerated Microenterprise Advancement Project (AMAP)** is a four-year contracting facility that USAID/Washington and Missions can use to acquire technical services to design, implement, or evaluate microenterprise development, which is an important tool for economic growth and poverty alleviation.

For more information on AMAP and related publications, please visit [www.microLINKS.org](http://www.microLINKS.org).

**Accelerated Microenterprise Advancement Project**

Contract Number: GEG-I-00-02-00016-00

Task Order: Knowledge and Practice

Contractor: **ACDI/VOCA**

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**Microfinance Opportunities** is a customer-focused microfinance resource center based in Washington, DC.

**ACDI/VOCA** is a private, non-profit international development organization based in Washington, DC.