Subsector Study

Of the

Taldykorgan Sewing Industry

BDS unit of KCLF

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ANNEXES

I Introduction

In November 1997, The Kazakhstani Community Loan Fund opened its doors to clients With funding from USAID and the Soros Foundation, disbursements were made to three lending groups as a 'trial run.' Over the next three months the borrowers proved that the loans would be repaid. Since that time, KCLF has consistently provided financial assistance to other mini and small business owners in Taldykorgan through its group-lending program. While changes and improvements are inevitable, necessary even, a time came when the Financial Services Operations seemed to be satisfactorily in place

After a year of providing small loans to the small business community in Taldykorgan, KCLF began to identify a new need from its clients KCLF's staff recognized that many of its clients could not always use the larger loans productively because of their lack of information and/or understanding about market demand and consumer interests As such, KCLF began to investigate opportunities to better serve these non-financial business needs of its clients and research how these could be met through a structured program

In August 1998, a Business Development Services Unit (BDS) was created to carry out these non-financial services BDS began to research client needs based on different sub-sector of activities – such as oil production, sewing and bread production. This assessment took a detailed approach to research clients, non-clients, consumers and suppliers in each identified sub-subsector The methodology and steps taken in this research are provided below

The conclusion of the study has been a decision to focus on the sewing sub-sector in Taldykorgan as a means to increasing the quantity and quality of locally made clothing products This decision was based on close comparison of the viability and potential impact of all the chosen sub-sectors in which the sewing sub-sector appeared to hold the most opportunity

KCLF believes that taking a more focused, sub-sector approach to its non-financial assistance to clients will have a positive, economic impact on the city of Taldykorgan Although this is a long-term strategy, it holds the potential to increase employment and the value-added of locally produced goods and services In the future, BDS hopes to replicate this approach and expand its work to other sub-sectors

Researchers included the research coordinator and a U S Peace Corps Volunteer Throughout this program, great care was taken to teach the local staff (one manager and one research coordinator) how to proceed and what was being concentrated on, as well as to document each step in both English and Russian, with the goal of long term skill transfer Furthermore, periodic updates kept administration and staff of the Financial Operations Unit of KCLF attuned to progress and activities A timeline of the BDS unit's activities of this Subsector Approach appears in Annex A

II Methodology

The mission of the BDS unit of KCLF is to provide assistance to entrepreneurs to strengthen the local business community by addressing productivity and efficiency constraints Sources suggest striving for the goals of demand-driven, cost-recoverable, subsector specific implementations have the greatest impact. In order to do this, the BDS implementers decided to use the successful subsector approach demonstrated in other countries by Action for Enterprise (AFE) Similar information is only starting to amass in Kazakhstan and in the former Soviet Union.

In order to give a brief overview of the methodology used, the following Definitions, Key concepts, and Process of subsector analysis are presented – (as practiced by AFE and BDS of KCLF)

Definitions

Subsector a network of enterprises (small, medium, and large) that are linked to a common product and who participate in

- Supplying or producing raw materials
- Transforming raw materials into finished products
- Retailing finished products to final consumers

Trade Groups enterprises that share the same economic activity as relates to the 3 areas above

Subsector Approach one that focuses on the interrelationships between the various actors within a targeted subsector in order to

- Understand the economic environment in which the enterprises operate and to identify the constraints and opportunities that confront them
- Identify interventions that can have an impact on a large number of enterprises
- Develop a "cost effective' program of assistance that will have a big impact in relation to its cost

Implementation of a sub-sector study requires the gathering of information from the entire subsector network and its associated trade groups This tactic forms the basis of the subsector methodology in that the most viable interventions are based on a clear understanding of how the players within the subsector interact.

Key Concepts of subsector analysis

Vertical Perspective – Most businesses work in vertical supply chains They purchase inputs and market outputs through others

Competition – Small firms compete among themselves They also compete with larger firms using different technology By understanding their competitors, we can determine when small firms have an edge, and how they can develop this advantage

Coordination – Coordination describes the linkages among firms active in the subsector Also it examines how policies and regulations influence market access and interaction within the system

Leverage – One-on-one assistance to MSEs is expensive and rarely cost-effective Because firms are small and dispersed, individual contact costs are high. Benefits per firm, even if projects double income, are small in absolute value

Subsector analysis starts from the premise that interventions most likely to be cost-effective are those that influence large numbers of small firms at a single stroke This is known as leverage With the benefit of leverage, small focused projects can generate large output, just as a small person using a lever can lift a large mass Leveraged interventions multiply benefits and reduce per-firm contact costs

Process

Selecting the subsector - In order to work with a subsector that has high potential for success, it is necessary to do preliminary research in several subsectors By comparing the data collected with the criteria that the implementing organization has selected, this research can eliminate sectors that do not show promise for improvement. In some cases, certain criteria are more important than others and thus will have a weighted value when it comes time to rate and select from the subsector candidates While there is no guarantee that the selected subsector will be the best option, chances of success can be improved if basic information is ascertained before the investment of significant resources

Analyzing the Subsector - Once a subsector is chosen, the organization must clearly identify the constraints and opportunities within the subsector This can be done either rapidly or in-depth, depending on the time period allotted Information should be gathered from different size businesses within all trade groups in the subsector

Identifying Potential Interventions – Once the organization is satisfied with the quality/quantity of research data, a list of all potential interventions should be brainstormed. From this list, a shorter version containing only the most probable activities can be obtained. A cost analysis should then be conducted on the "short list" and factors such as leverage, demand, simplicity of implementation, and cost per client should be considered At this point, the goals and resources of the implementing organization must be considered relative to external funding sources

Preliminary Intervention Program – From the "short list" of potential interventions, a project can be chosen Once a preliminary plan is selected, it should remain flexible and open to change as new information is gathered during the initial implementation stages

Implementation of Intervention Program – As the research has consumed an allotted amount of time, it is at this stage where action can be seen It is important that the implementation be conducted in a timely manner Obstacles and constraints change over time and people will grow leery if no results are seen Even at this last stage, new information appears and should be adapted into the intervention program as necessary

The following pages show how this theoretical subsector methodology was put into practice by the BDS unit of KCLF

III Selecting the subsector

Very little, if any, business related statistical materials can be found in this former Soviet Republic The only statistical base of facts rests in KCLF's own client database (at that date there were >1000 active clients) The subsector candidates were chosen depending on their representation within KCLF's database Characteristics of selected subsectors included characteristics such as

Limited public sector involvement,
Potential for technological advances,
High representation of SME's in the subsector, and
Active private sector

Based on these criteria, the following five subsectors showed potential and became the candidates for further research 1) Baking (bread production), 2) Sewing (clothes), 3) Oil processing, 4) Office services, and 5) Hot Food Service

At the same time, a criteria matrix was established that would be used to select a single subsector based on KCLF's organizational goals (Table III 1 - *Criteria matrix*) Members of different size businesses as well as different trade groups were initially interviewed (as quality key informants were lacking) All interviews were conducted with both researchers present in order to maintain consistency of information gathering

Setting a one month deadline to select the viable subsector maintained timely progression of the study At the end of the time limit, researchers analyzed all data in debriefing sessions A meeting with management was called to rank each category of every sector Several criteria considered more important were given a weighted ranking These were Unmet Market Demand, Size, and Value Added Each subsector was discussed and scored individually based on information provided by the researchers

After all sectors were ranked, it was in some cases necessary to edit scores in light of the overall picture (It should be noted that the office service subsector showed little potential and was quickly eliminated. Interviews also suggested the sewing and knitting could not be included together and thus became independent.)

Although the final results give the knitting subsector the highest score, researchers deemed it a highly technical project, beyond the capabilities of the BDS unit of KCLF – at present. The sewing subsector showed the greatest potential that could be dealt with effectively by KCLF Notably, this subsector scored highest in the category weighed most heavily It also contained a large number of businesses, an important factor when thinking about leverage

Table III 1 CRITERIA MATRIX

A grade between 1 and 5 for each criterion was given with '5' holding the strongest potential This criteria matrix was completed to allow a numeric comparison of the chosen subsector

	Baking	Knitting	*Sewing*	Food Service	Oil Processing
**Unmet mkt demand x 3	2 = 6	2 = 6	4 = 12	1 = 3	3 = 9
Unmet demand for better quality	0	3	1	2	2
Linkage Opportunities w/ large volume buyers	3	4	2	2	2
Employment generation	1	3	2	0	1
**Size (# of businesses) x 2	5 = 10	3 = 6	4 = 8	3 = 6	3 = 6
**Value added/ use of domestic input x 2	2 = 4	4 = 8	2 = 4	2 = 4	3 = 6
Potential for increase in Productivity	2	3	2	1	3
Participation of women	3	5	4	4	3
Trade Group Associations	0	0	0	0	0
Totals	29	38	35	22	32

Questions asked to determine criteria input

1 Is there demand for this product that is not being filled by suppliers?
2 Is there demand for a higher quality version of this product or service that is not currently being met?
3 Are there opportunities for small & micro producers to supply larger firms who cannot fill demand?
4 Is there potential for employment generation if this subsector where to develop or expand?
5 How big is this subsector? How many businesses are involved from raw material to final retail?
6 Is it possible to increase the use of domestic inputs?
7 Is there potential for higher levels of output because of better efficiency or productivity?
8 Is this sector highly populated by women employees?
9 Are there existing trade group associations that we could work with and help to make more efficient?

IV Analyzing the Subsector

In order to clearly and thoroughly understand the constraints and opportunities of this subsector, information used in this analysis came in three forms a An analysis of data gathered through preliminary interviews b A workshop held to bring together actors in all trade groups of the sewing sector, sponsored by the BDS unit and a BDS specialist c Interviews with key trade groups final consumers, clothes manufacturers, and fabric suppliers d. **Findings of the Subsector Analysis**

a The clothing industry in Taldykorgan as determined from preliminary interviews

In the previous economic system, at least two large and three medium size sewing factories were located in Taldykorgan. As these businesses dissolved, many skilled woman lost work, and many of the machines were given away as a form of payment That means that today there is an unorganized skilled labor force with an abundance of equipment (albeit rather old)

The population, and potential client base, of the city is approximately 100,000 and there are many small towns in the surrounding region As there is very little domestic production of clothes, Taldykorgan's marketplace is filled with imported clothes Sewing businesses and homebased sewers see a moderate amount of work through individual orders but very little is being offered as ready-to-wear garments This produces unstable income for an estimated 125 women. Locally made clothes for sale are rarely promoted Sometimes pre-made labels are added to locally made clothes to make them appear imported

The trade groups in this sector are very basic Here they are shown with the estimated number of businesses involved Ninety-nine percent of businesses are MSE's employing less than 15 persons, in fact, most with less than 5

Fabric (Raw material) traders – 15 mini at bazaar, 15 small in department stores
Clothes Producers – up to 300 with approximately 125 sewing for profit (vs for only family)
Clothes Retailers – up to 1500 individuals selling at various bazaars and stores in the city (the figure 3000 given at the workshop, to follow, appears overstated)

There is currently no subcontracting/outsourcing occurring as the subsector is highly underdeveloped and demand and profit margins are very low

b Workshop

A six-hour workshop was held to bring together actors in all trade groups of the sewing sector (sponsored by the BDS unit.) Participants included 3 suppliers of fabric and materials, 5 producers of locally made clothing, 1 teacher of sewing skills, and 3 vendors that sell ready-made clothes at the local bazaar Except for 3 producers with small sized sewing workshops, the remaining invitees can be considered mini- entrepreneurs The BDS staff and a BDS specialist led the workshop A revised, actual schedule of the workshop can be viewed in Annex B 1

Objectives of the workshop
1 Inform attendees about the BDS unit and its current "Subsector Approach" study
2 Receive feedback to edit the subsector map of the clothing industry in Taldykorgan
3 Complete "constraints and interventions" matrix

The one-day workshop was divided into five phases, as follows

<u>Phase 1</u>
As the BDS unit in general and the subsector approach specifically are very new to Central Asia, the preliminary goal was to teach participants about the value of a BDS unit As many participants were clients of KCLF, the instructors sought to inform these clients that KCLF is interested not only in expanding businesses through loans, but through other project implementations as well There was a need to gain credibility by explaining how these services could further help KCLF as well as these entrepreneurs in the near future The principals of looking for ways to help business people at each step of their business chain as well as the "Best Practices" of BDS units were introduced This led to a discussion about offering programs that are subsector specific, and thus, why this group of participants was brought together The entrepreneurs further learned that their input plays a role in the ideas of ' Demand driven" and "Participation," two common Best Practices Services that they demand and that they actively seek out and help to organize will be the services the BDS unit provides (For annotated notes see Annex B 2 a.)

Phase 2
The next question to answer was "How" this specific sector chosen. Phase 2 of the training was a brief introduction to a "Subsector Approach" study Participants were presented with the theoretical steps, as well as the actual work that had been done and still needed to be completed It was explained that initially there were 6 sectors, but after preliminary research, sewing seemed to show the most potential The current phase was more in-depth research of this selected sector The future would involve project design and implementation
(For annotated notes see Annex B 2 b)

Phase 3
The goal of part three was to explain a generic subsector map and the advantages to "seeing" what is happening in a subsector Once terms like 'channel' and 'trade group' were understood, the participants received a copy of a first draft, subsector map Time was then spent reviewing each channel Facilitators talked with the participants and made corrections, additions, or deletions to the map based on their input Finally facilitators asked participants to quantify the number of *producers* in each channel described This map was updated as a result of the participants input
(For annotated notes see Annex B 2 c)

Subsector map

From the preliminary information gathered during the subsector selection stage, an initial subsector map was drawn (See annex B 3) The researchers started with four channels and participants of the (first) sewing subsector workshop added two more As there is very little specialization, most channels are similar Once the map was redrawn and agreed to, participants were asked to quantify how many enterprises are involved in the production of clothes in each channel

The first distribution channel is made up of large size enterprises with the capacity to always buy from bulk suppliers The entire production process is done at their facilities and distribution through their own retail shops Clothes are also made on order to individual customers Additionally, there is a small quantity exported on an occasional basis In this channel only 2 large enterprises have the physical capacity to produce and sell at their own locations

The second distribution channel consists of small and medium enterprises who sew only for specific individual orders These producers can obtain their supplies from the wholesale markets, from retail shops or from the client her/himself Often clients bring their own fabric when they place an order Again the whole production process is done in-house Distribution is direct to the client There are 20 medium sized businesses and at least 300 small, home-based sewers working in this way

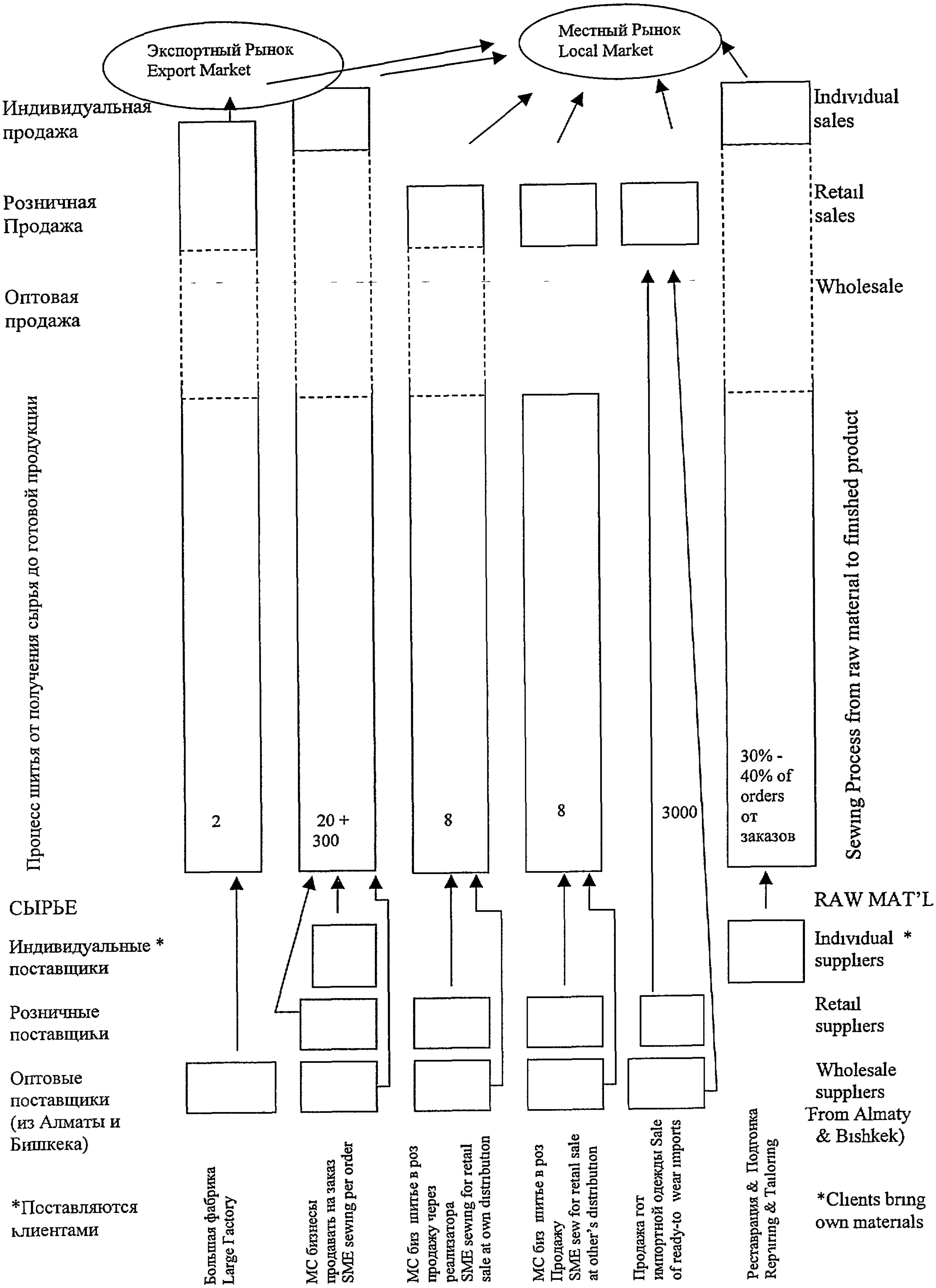
Distribution channel number three is relatively small, with only about 8 producers They gather materials from the wholesale markets or from retail shops when necessary These entrepreneurs also engage in the entire transformation from raw material to finished clothing They sew clothes to be sold at their own distribution points, usually booths at the bazaar

The fourth channel is almost exactly the same as the third The only difference is that these sewers make clothes to sell to clothes retailers This difference was discovered at the workshop and resulted in separating channel three from four The clothes vendors are located either at the bazaar or in small clothing shops

Also included in the subsector map is a non-producing channel Distribution channel five is made up of ready-to-wear imported clothes vendors Clothes are bought either at wholesale or for retail from import markets and brought to Taldykorgan for sale at the bazaar or in stores As there are approximately 3000 businesses selling clothes in this manner, channel five represents the largest competition to locally made garments

Finally, the sixth channel on the map was discussed and included during the workshop It is not actually clothes production, but rather repairing and tailoring of used clothes As this service represents 30 - 40 % of all orders made to small and medium size enterprises, it was decided that this channel would be included separately

The attached page (Table IV b 1 – *Subsector Map*) displays the revised map as determined by the researchers and participants during the course of the workshop


Экспортный Рынок
Export Market
Местный Рынок
Local Market
Индивидуальная продажа
Individual sales
Розничная Продажа
Retail sales
Оптовая продажа
Wholesale
Процесс шитья от получения сырья до готовой продукции
Sewing Process from raw material to finished product
2
20 +
300
8
8
3000
30% -
40% of
orders
от
заказов
СЫРЬЕ
RAW MAT'L
Индивидуальные *
поставщики
Individual *
suppliers
Розничные
поставщики
Retail
suppliers
Оптовые
поставщики
(из Алматы и
Бишкека)
Wholesale
suppliers
From Almaty
& Bishkek)
*Поставляются
клиентами
*Clients bring
own materials
Большая фабрика
Large Factory
МС бизнесы
продавать на заказ
SME sewing per order
МС биз шитье в роз
продажу через
реализатора
SME sewing for retail
sale at own distribution
МС биз шитье в роз
Продажу
SME sew for retail sale
at other's distribution
Продажа гот
импортной одежды Sale
of ready-to wear imports
Реставрация & Подгонка
Repairing & Tailoring

Phase 4
Participants were divided into 3 small groups and given a matrix to fill out The first column contained the 5 steps of the business chain. Each group was asked to brainstorm the constraints faced at every point along the business chain. Additionally they were asked to specifically state which trade groups were facing this obstacle Discussion was encouraged as the three groups read their responses aloud

Phase 5
The last segment of the workshop was used to brainstorm possible interventions for the above named constraints Again the entrepreneurs worked in groups Some group work was hampered by the inability of several participants to look beyond one or two major complaints relevant to their specific businesses In conclusion, all answers were shared with the entire group, discussed, and added to the matrix of constraints and interventions

Outcome of the workshop

Workshop–Matrix

> As an outcome of the workshop, a summarized matrix was created This matrix shows constraints occurring at different points along the business chain, which trade groups are affected, and possible interventions to those problems Bullet points horizontally link the columns (Table IV b 2 – *workshop-matrix*) It is important to note that the BDS unit bases its vertical axis on the Business Chain and not on a Intervention axis, as is common in other subsector approach studies

As this workshop was the first of its kind, both for the participants and the BDS implementers, there was a need for both confirmation of the information gathered and additional understanding of incomplete 'gaps' of information A plan for further interviews would be needed (An expanded constraint/intervention matrix will be shown in section V c representing a final version after this workshop and after additional interviews)

Table IV b 2 Workshop matrix

Business Chain	Constraints	Trade Groups	Proposed Interventions
Product Idea	• High barrier to entry, especially due to taxes • Intense competition ready-to-wear market • Estimating costs is difficult	• Producers • Retailers • Producers/retailers/fabric sellers	• Training in new business start-ups (and/or for current businesspeople) with topics such as determining costs, managing information, market research, business planning

Supply	• Access to credit is still a need
	• Supplies must be imported, wish they could be produced locally
	  ◦ Too many middlemen
	  ◦ Higher prices due to imports, customs, VAT
	• Don't have access to the supplies they want
		• Producers/retailers/fabric sellers
		• Producers/retailers/fabric sellers
		• Producers
			• Credit
			• Information on supplies available in other areas
			• Group purchasing to lower price
			• Information network so buyers know what sewers want

Production	• Equipment is old and slow
	• Some have problems with
	  ◦ Quality of production
	  ◦ Speed of production
	  ◦ Style of production
		• Producers
		• Producers/retailers
			• New equipment/technology
			• Access to better materials
			• Access to new clothing ideas from other countries

Marketing	• Not even sure what marketing is • Everyone sells similar products • High cost of advertising on billboards • Competing with 'designer labels' is difficult • Image of locally made clothes very low	• Everyone who sells products to consumers	• Marketing fairs • Catalogs • Training on how to market clothing products
Distribution	• Poor sense of customer service, how to deal with customers • Producers are paid as products sell • No packaging • Too much left over at end of season	• Retailers • Producers • Producers/retailers • Producers/retailers	• Trade fair • Training of how to better organize selling by seasons

c Interviews

While preliminary interviews and the sewing subsector workshop provided much information, the researchers felt that unknown information remained To determine what information was known and what still unknown, the BDS unit created a list of ALL questions that needed to be answered in order to fully understand the subsector, at the level of every trade group Those questions already known were eliminated Furthermore, since the list was excessive, only the questions that were absolutely necessary to answer were selected, and only at the most critical trade group level

Some questions could be answered by more than one trade group so there was no need to visit all levels, nor was there time to do so The strategy for the sewing subsector analysis was three pronged researchers spoke with final consumers, clothes manufacturers, and fabric suppliers It was determined that these three trade groups could best provide results

Of special concern to the researchers was the following localized information. While experience suggests interviewing key informants and businesses of different sizes, the actuality of the local economic and technical situation proved rather limiting It is no secret that after the break up of the Soviet Union, most of the medium and large scale production facilities closed, leaving the country very dependant on imports As a result most of the remaining business in Taldykorgan are micro or small The previous separation of duties allowed very few people to become specialists on any of the topics Additionally, historical factors of mentality hampered research work distrust of strangers asking questions, tendency to not consider private, micro businesses real business and therefore disinterest in the skills/information that would improve 'business', stifled ability to think critically about business decisions, and a certain level of pride that inhibits entrepreneurs from admitting their weaknesses and lack of knowledge under the new market economy Nonetheless, fieldwork and analysis of the sector's structure, constraints and possible interventions were carried out to the best of the BDS unit's abilities

The original questionnaire, created in December, was reformatted for each trade group The categories, however, were similar Raw Materials, Technology, Operating Environment, Market, Policy, Business Management Skills, General, Linkages

For two weeks researchers conducted interviews with 7 suppliers of raw materials (namely fabric) in Taldykorgan A questionnaire was distributed to these suppliers with the intent that they would gather more information from their suppliers in Almaty and Bishkek This proved futile Instead, a representative in Almaty conducted 5 interviews with resale suppliers of imported fabric as well as a supplier and producer of Almaty-made fabric

For another two weeks, the BDS unit passed out surveys to 57 random consumers Selected participants were divided into categories of students, teachers, working class, and pensioners

15 sewers were thoroughly interviewed during the final two weeks Researchers did not return to the sewers interviewed at the preliminary stage It was decided that the questions would be too similar, only more detailed. Instead, the goal was to look for confirmation of already mentioned constraints as well as supplemental information with different entrepreneurs

In addition, the BDS unit created a price list of different fabrics from different sources to see if there is a relation between cost and quality, and cost and source

In an attempt to learn official customs duties, an official request for information was sent to the local Customs Director A reply came but as with most government directives, it was vague and open for discretion. Although there has been government "talk" for the development of small business, little action has been seen

In conclusions, the responses did confirm previous information. Fabric prices are high due to numerous intermediaries, and transportation and customs expenses Furthermore it was learned that there are few permanent suppliers, which means no guarantees in the quality of supplies There is a logical pattern between the quality of fabric and price Sewers face the problems of no business skills and no distribution outlets (other than individual orders) Equipment is old but at least the sewers are familiar with those models Quality in general is average with room to improve Surprising information came from the consumers Many only consider local production to include the factories, which everyone knows are barely working Consumers do not know enough about sewers working at home and in small workshops Many would be happy to buy locally made clothes, if price, quality, and fashion met higher standards An interesting fact is that many people buy clothes on individual order and are satisfied with quality, yet do not look to buy locally made, ready-to-wear clothes

d **Findings of the Subsector Analysis**

Combining findings from all interviews and the workshop, the following adequately shows that there is much work to be done in this subsector Constraints are listed according to each business chain category

Channel	**Finding**
Product idea	Lack of business and economic skills
Supply	No good linkages, supplies expensive
Production	Lack of updated know-how
Marketing	Inadequate, no differentiation
Distribution	Few outlets for locally made clothes

A complete matrix at the end of this section contains all constraints found during the subsector analysis (Table IV d 1 - *constraint analysis*) Horizontally each constraint is placed next to the trade group(s) affected

Product Idea
As the members of this subsector lived under a command economy all of their lives, they do not quite know the underlying principal of a market economy It is still not happening that there is demand first and then a product Products are made/offered for sale which have little appeal to consumers Not only is knowledge of marketing research needed but other standard small business skills as well Specifically, it appears that the calculation of expenses is very primitive Frequently labor is not included into a cost analysis, nor is a difference made between business and household expenses Lack of accurate accounting makes it difficult to measure where cost reductions could be made or where efficiencies could be gained As a result, micro entrepreneurs implement many unprofitable product ideas

Supply
At no point along the subsector channel are there any permanent supply linkages This makes is it very difficult to have any standards of quality or consistency Again, as ideas like customer service and two-way communication between buyers and sellers were previously discouraged, today this lack of cooperation is very detrimental to the industry Buyers do not always see the value in having and working with regular, reliable suppliers rather than going shop to shop, bazaar to bazaar, looking for the items that they want

There is a lack of specialized materials (backing and pattern paper) and higher quality fabrics that would make final products more professional looking

Almost all raw materials are produced outside of Kazakhstan As current importing laws are unclear and customs expensive, much trade is done unofficially by shuttle traders It can not be determined exactly how much customs adds to cost because the amount changes every purchase Whether officially or unofficially obtained, most fabric is considered to be expensive to the living standards of the country As the raw material price starts expensive, the finished product can be more expensive than the ready-to-wear imported clothes

Production
Most sewers are used to working with the very basic instruments of their profession Lack of knowledge, access and availability to small tools and aides (fabric pencils, fabric stickers, better scissors, and pattern conversions) hamper modernization and improvement of finished products

Regarding large equipment, most technology is old because it is affordable Although the sewers know that new machines and equipment are available, they are expensive and there is fear of breakage, repair, and shortage of spare parts Additionally steamers, specialized irons and mannequins are demanded

With the introduction of imported supplies, there is currently a shortage of knowledge about how to use the new fabrics (especially synthetics) and what special care is needed This creates problems and losses in the final product due to shrinkage or bunching up of fabric

Most micro businesses also do not understand how to assess the 'cost effective' use of time Ideas like not going for supplies, efficiently working with customers, and outsourcing do not yet seem important to local producers This prohibits understanding that specialization is beneficial For instance, cutting (a very complicated and crucial activity) is done by all sewers themselves and lack of skill again leads to lower quality finished products

Marketing

The inadequacy of marketing knowledge is paramount Segmentation of goods made and sold, active searches for permanent clients or suppliers, and promotion of locally made clothes are all rarely conducted The lack of packaging and labels also makes locally made clothes less desirable These basics of marketing are difficult to teach because small business owners think that marketing is only for large businesses

The previous stereotype that "imported is better" still holds true and there is little being done to change that opinion As imports are easy to obtain, clothing vendors do not see an advantage to selling locally made clothes so they are not very interested in the sector In general, consumers are not aware of what is available locally or are not satisfied with the quality and thus demand is low Most people understand local production to mean large factories and do not take into consideration small sewing workshops and individual women working at home

Distribution

It is hard for producers to have their goods displayed in this environment. First, there is very little trust between suppliers and buyers Buyers will only take clothes on credit which creates cash flow problems for the sewers As the buyer has no incentive to sell the goods, often the listed price is outrageous or the display is secondary to the ordinary imports Second, as people are afraid to offer locally made clothes, there is no specialized bazaar or store space available to these producers Third, many sewers are home based and have no distribution outlets at all

Table IV d 1 CONSTRAINT ANALYSIS

Business Chain	Constraints	Trade Group 1 = Suppliers 2 = Producers 3 = Retailers
1 Product Idea	• Don't understand market economy, idea of having demand first, THEN a product • Don't understand advantages of sewing small batches (not just sewing on order) • Many people can sew (at various skill levels) but have no business skills (other than for survival)	2 2 2
2 Supply	• Not enough business to support loan payments • Lack of cash flow and therefore lack of supplies because work is irregular • No permanent suppliers, only minimal communication between links • Lack of "backing" selection and knowledge of usage, especially with all new synthetic materials • Poor access to specialized material for making patterns • Fabric is expensive from the start (increases price of finished goods) Stani suppliers – 70% of price is the cost of fabric Far suppliers – 33-50% of price is the cost of fabric Customs plays a very, very large role, both official and unofficial • Minimum of 20% no satisfied with quality and selection – complaint of lack of natural fabrics, aware that 1st sort quality goes elsewhere	2 2 1,2,3 1,2 2 1,2 1,2
3 Production	• Need for small items like fabric pencils, cutting scissors, rulers, fabric stickers to improve accuracy • Have old technology because affordable • Afraid to buy new equipment because there would be no spare parts, no repairmen • Demand for steamers/specialized irons • No information about working with different new fabrics and how to care for them • Don't understand 'cost effective' use of time not going for supplies, working with customers, outsourcing • Mannequins are very expensive • Lack of cutting specialist and cutting services (IE cutting very important step, skill level not great) • Patterns available but in example sizes only	2 2 2 2 1,2 2 2 2 2
4 Marketing	• Don't have full understanding, don't think its necessary for small businesses • No Segmentation of market for goods provided • Don't actively search for permanent, constant clients • Not trying to raise image to improve local opinion of clothes • No labels, no differentiation of locally made clothes • Consumers don't know much about locally ready made clothes, nor importance of buying locally • Sellers also don't realize importance of selling local clothes, and therefore don't promote or offer to sell • Former opinion that imported is better needs to be broken	1,2,3 1,2 1,2 2 2 3 3 3
5 Distribution	• With homebased sewers, some have difficulties attracting customers and selling goods • Trust between sewers and sellers very low • No specialized store/bazaar space • Sellers will not buy items on cash	2 2,3 2 2

V Identifying Potential Interventions

Stemming from the findings above, BDS outlined a series of possible interventions These are linked to the different channels of business activity and flow from the list of constraints The first step in this process was to brainstorm ideas and encourage creative suggestions Later these ideas were filtered to include only those with the highest potential for success

a Possible Interventions

The following is a list of all possible interventions, determined both during the seminar and as a result of all research, broken down by business chain category

Product Idea
Provide trainings on business skills and information such as costing and calculations, marketing research, general market economy, and writing business plans
Work with tax police to change their restrictive policies

Supply
Organize group purchasing of fabric in order to obtain fabric at a lower cost
Work with government trade authorities to change importing policies so fabric becomes more affordable
Find new, better sources of fabric that would improve finished products
Prepare participants for KCLF loans

Production
Work with cutters to create outsourcing of services in this technical, complicated area of clothes production.
Gather information and resources to disseminate about the care and usage of different fabric types
Obtain information about new technologies (large and small) as well as their usage and repair
Find sources of fashion (catalogs, CD ROM's, etc) and offer them for sale to sewers, a type of "fashion library "
Provide information about converting from sample size to life size patterns so that cutting is more accurate

Marketing
Organize an advertising campaign to promote locally made clothing and the advantages of buying locally
Create a data base of sewers and serve as a marketing agency for perspective customers/buyers of locally made clothing
Provide market trainings, teach ideas like differentiation and market segmentation.

Distribution
Organize a series of trade shows where buyers and producers of clothing can come together

Combining information from preliminary research, the May workshop, and the Subsector Analysis in-depth interviews, researchers updated a matrix of all constraints faced by the subsector into an edited matrix. This matrix contains a list of constraints that the BDS of KCLF has the capabilities to influence and correct, trade group affected, as well as possible interventions Some constraints were eliminated, as there were no clear ideas about how to solve them. The interventions are from the above list With this new matrix it can clearly be seen how the constraint corresponds with its potential intervention (Table V a 1 – *Constraint_Irtervention Matrix*) The matrix should be viewed horizontally Bullet points in the constraint column correspond directly with bullet points in the proposed intervention column. Some interventions could work to solve several problems so in this case, there is a group of constraints separated by a space, corresponding to one intervention

A short list of the four best interventions was created While it would be desirable to do everything to improve the local situation, this is unrealistic Rather four of the strongest ideas were further discussed
These four ideas are highlighted on the matrix and will appear again on the intervention matrix analysis

Table V a.1 CONSTRAINT-INTERVENTION MATRIX

Business Chain	Constraints	Trade Group 1 = Suppliers 2 = Producers 3 = Retailers	Interventions
1 Product Idea	• Don t understand market economy, idea of having demand first, THEN a product • Many people can sew (at various skill levels) but have no business skills (other than for survival)	2 2	• Marketing training • Series of How to start your business trainings
2 Supply	• No permanent suppliers, only minimal communication between links • Lack of "backing selection and knowledge of usage, especially with all new synthetic materials • Poor access to specialized material for making patterns • Fabric is expensive from the start (increases price of finished goods) Stam suppliers – 70% of price is the cost of fabric Far suppliers – 33-50% of price is the cost of fabric Customs plays a very very large role, both official and unofficial	1,2,3 1,2 2 1 2	• Market development through campaign to raise awareness • Information search and dissemination • Policy improvement, pressure to import authorities • Create a trade association to make joint purchase of inputs
3 Production	• Need for small items like fabric pencils, cutting scissors, rulers, fabric stickers to improve accuracy • Have old technology because affordable • Afraid to buy new equipment because there would be no spare parts, no repairmen • Demand for steamers/specialized irons • Mannequins are very expensive • No information about working with different new fabrics and how to care for them • Don t understand 'cost effective' use of time not going for supplies, working with customers outsourcing • Lack of cutting specialist and cutting services (IE cutting very important step, skill level not great) • Patterns available but in example sizes only	2 2 2 2 2 2 1 2 2 2	• Provide information on new equipment and prepare businesswomen for loans, help write business plans • Information search and sale of guidebook • Business Trainings • Organize cutting businesses including trainings on the skill and importance of sub contracting • Trainings on conversion of sizes
4 Marketing	• Don t have full understanding, don't think its necessary for small businesses • No Segmentation of Market for goods provided • Don't actively search for permanent, constant clients • Not trying to raise image to improve local opinion of clothes • No labels no differentiation of locally made clothes • Sellers also don t realize importance of selling local clothes, and therefore don't promote or offer to sell • Consumers don't know much about locally ready made clothes, nor importance of buying locally • Former opinion that imported is better needs to be broken	1,2,3 1 2 1,2 2 2 3 3 3	• Marketing training help create marketing plans • Market development through a series of news articles to raise awareness followed by trade show
5 Distribution	• Trust between sewers and sellers very low • No specialized store/bazaar space • Sellers will not buy items on cash	2 3 2 2	• Market development through a series of news articles to raise awareness followed by trade shows

b Intervention Matrix with resources considerations

As with any business or project, an analysis needs to be conducted assessing the feasibility of the idea After so many months of research, the BDS unit did not want to take on a project that was either too expensive or too narrow to affect local citizens From the short list of four, a cost analysis was done Other factors were also considered to rate the potential effectiveness of the project Total costs, costs per client, impact, demand, leverage, and simplicity were determined for each of the options The non-quantitative factors were ranked comparatively, among the four options This intervention analysis was presented to KCLF management and staff for input and approval Before incurring more financial and human resources from KCLF, the organization needed to agree with the intended plan.

This matrix represents an accumulation of many months work Presentation to management and to the other KCLF staff was an achievement for the BDS members As this entire subject of BDS and the "subsector approach" is still new, there is definite suspicion from some non-involved members as to the usefulness and potential for success Negative reactions encountered will erode only slowly with time The intervention plan will be highly important to keep the project on-track and maintain program benchmarks

The top of this matrix shows the four potential projects and how they compare to each other, based on the criteria in the left column (Table V b 1 – *Intervention Matrix*) It should be noted that the last criterion is unaddressed problems The BDS unit found that even though one intervention could alleviate some problems, unsolved constraints could hamper success In addition, while some interventions may have high demand, their success will be based on the elimination of other existing constraints Therefore, it will be critical for KCLF to carefully stage its sequence of interventions

Included at the bottom of this matrix is a detailed cost analysis of each variant The numbers for "Total Cost" and "Cost per Client" were derived from these calculations

Table V b 1 INTERVENTION MATRIX

What activity will do the most good that is possible for KCLF/BDS to do?

Criteria	Option 1 Market Development Including Awareness raising Info Search Trade Show Trainings Loan Preparation (Additional as becomes necessary)	Option 2 Establish a trade Assoc of Fabric Suppliers	Option 3 Creation of outsourcing (cutting businesses)	Option 4 Technology improvement
Total Cost * see worksheet below	108,400T	135,900 T	93,300 T	104,200 T
Cost Per Client	/50 = 2,168 T	/8= 16,988 T	/8 = 11,663 T	/15= 6,947 T
Immediacy of impact	Nov 99	By Jan 2000	By Nov 99	By Jan 2000
Client Demand	Medium	Low-Mid	Low-Mid	Mid-High
Leverage capacity of intervention to assist a large number of people	Approx 250 people Low	Approx 500 people Medium	Approx 700 people High	Approx 200 people Low
Simplicity of implementation Rank order the intervention options by how easy they would be to implement When experimenting with ideas, simpler ideas are better ideas	2	4	1	3
Unaddressed problems	Equipment still old, cost of fabric high	Equipment old, no marketing channels	Equipment old, no marketing channels, cost of fabric high	No marketing channels, cost of fabric high

		Option 1	Option 2	Option 3	Option 4
	# mos	3	2	2	2
Project specific costs					
Awareness/mktg		5000		15000	3000
Info Search		500	500	500	1500
Trade show (1200/ea)		4800			
Trainings/Meetings (1000/ea)		5000	6000	3000	4000
Seminar (3500/ea)				7000	7000
Loan Preparations		1000		1000	1000
Truck Rental			45500		
Business Trip			30500		20500
Consultant		13000		13000	13000
SubTotal		29300	82500	39500	50000
Salary (#mos*2*20 000T* 60)		72000	48000	48000	48000
Rent (100 T/hr)		3600	2400	2800	3200
Transportation (500/mos)		1500	1000	1000	1000
Telephone (1000/mos)		2000	2000	2000	2000
TOTAL		108 400	135 900	93 300	104 200
per client		2 168	16 988	11 663	6 947

VI. Preliminary Intervention Program

After discussions within the BDS unit and approval from staff, the first option -Market Development- from the Intervention Matrix was selected The overall deciding factors were cost per client and location of the project along the business process That is, working to develop the market from a top down approach, from the demand side A main issue is that all these constraints are related in a circular problem As demand is currently low, there is no incentive for sewers to invest in new technology or to consider outsourcing, so these options would require significant coercing with no other coinciding projects Additionally, many sewers travel for their own suppliers and are not demanding good products and good service from local suppliers The BDS unit feels confident that if demand starts to increase at every level, then there will be more incentive to improve other areas of constraint. This intervention should take the least convincing of a doubtful, risk adverse audience

The first goal is to increase communication among clothes sellers and clothes makers in order to improve demand, both for locally made clothes and for business development services By developing the buyer seller linkages, this industry can start to be demand based instead of supply based The preliminary plan is to write a series of newspaper articles in order to make people start thinking about the way market economies work Then several trade shows will be conducted in order to bring sellers and sewers into one place At first, the quality can be critiqued as well as the fashion and design, for the sewers to know their weaknesses and strive to improve At the same time, local clothes sellers can see what is available and begin to know more about 'the local clothing industry ' The strategy is to gather interest at each gathering and provide incentives for participants to come back together repeatedly Only when demand appears will the local sewers see a value in learning business skills, seeking new technology, or striving for higher quality The trade shows are planned to increase demand, with the intention of subsequently raising interest in business and technical trainings, consultation ideas and any other activities that the BDS unit could undertake Subsequent steps depend on the targeted entrepreneurs and will require flexibility in planning

VII. Implementation of Intervention Program

The key to an Intervention Program is timely implementation As soon as the plan was created, the BDS unit started its activities to develop the market for locally made clothes Furthermore, as an organization striving to meet its costs, it is desirable to start income generating activities after many months of research. The following is an outline of tasks to begin improving the clothing industry in Taldykorgan. As mentioned, this specific intervention allows many options, tailored to the desires of the participants

To date, interventions include

- A series of newspaper articles to raise awareness on the issues of supply/demand, customer service, and differentiation/segmentation, as well as the current situation of the clothing industry as assessed by the BDS unit

- Simultaneously researching various questions about fabric care and usage in order to have materials when participants gather It has been difficult to find Russian languages materials that will prove useful to our clients One contact, a Sewing Incubator in St. Petersburg, will be further pursued

- Organization of a seminar/trade show to bring together sewers and sellers of clothes as the first step of building buyer/seller relations in this industry Participants listened to the history of the research, the summary of constraints, and the suggestions of how to proceed more effectively Sewers brought and presented models to each other and to several local sellers Some critiquing was done as well as tips given The clothing vendors were surprised to learn how well some of the local sewers can sew It was important to know the next step and so the final session was devoted to gathering ideas for future meetings At the outcome of this seminar, participants established a concrete plan There is a goal to create a registered, active association of local sewers and sellers References were made to other associations that had joined together and improved the situation, as least slightly, in their respective industries

- Formation of "The Association of Entrepreneurs of the Clothing Sector " This activity has included meetings, advertising, site visits and telephone calls Initially a small work group was formed to complete administrative work for the formation process Together with the BDS initiators, the work group formulated a mission, objectives, and a charter- including an official name, initial criteria for membership and roles of officers and members of a Board of Directors

The main **objectives** are to

- Create buyer/seller relationships that harbor trust and reliability
- Improve quality and sales of locally made clothing
- Protect the interests of members

Through **activities** such as

- Regular meetings to discuss problems and solutions
- Trade shows to bring buyers and sellers together
- Conducting trainings on necessary business and technical skills
- Inviting specialists
- Gathering information and new ideas
- Jointly promoting locally made clothing

- Contact was made with the local administration and their small business development office Through this representative, a 'round table' conference was organized where this representative, a tax inspector, and a customs officer answered direct questions posed by potential members of the association

- A general assembly was held to ratify the charter, elect officers and members of the Board of Directors Additionally, a tentative five-month plan was created so that members and future members can start to see real activities and not just meetings with paperwork

- Tentative plans include
  - a seminar to discuss the technology and usage of new fabrics
  - organization of spring fabric purchases
  - fashion shows in preparation for spring, high school and college graduations, summer
  - trainings for marketing and cutting

At first the BDS unit of KCLF takes a role of organizer and coordinator as well as main researcher due to time and resource availability Gradually these activities will be handed over to the association

The BDS unit has a goal of developing this association so that it can eventually be organizationally and financially self sustainable The effects will be very long term if the association can be taught to lead and organize on its own Furthermore, this gives BDS the freedom to move on to other subsector projects During the dependence stage, it will be important for BDS to recover its costs of activities related to the subsector activities By openly tracking and discussing costs of operations from the start, the idea is to train the association to be financially sustainable once they are ready for independence Initial income generation plans

- Membership Fees
- Fees for seminars/training/consultations
- Fees for equipment/resource usage
- Fees for office facilities (ie Photocopying, FAX, word-processing, email, translation)

The association should need approximately one year relying on the skills of BDS to reach the desired goals as well as sustainability After one year the association will be in a position to carry on its activities and expand its outreach It is a goal of KCLF to ensure that this important, new organization continues its work in the future and assist in the value-added to locally made products and services

For questions or comments about this subsector study or to open dialogue with the BDS unit of KCLF, please feel free to contact KCLF at kclf@mail tald kz In addition, the author may be contacted via email at wright_anita@yahoo com

ANNEXES

Annex A

Clothing Subsector Approach
Timeline
Nov 98 to May 2000

Time period	Resources needed	Participants
Nov		
Selecting the subsector		
Select 5 preliminary sectors	KCLF/ PVC	KCLF client database
Dec		
Determine criteria for subsector selection	KCLF/BDS	Past subsector reports
Preparation of 30 min training for KCLF staff	PCV	reports/office materials
Create questionnaire for key informants/interviews	KCLF/PCV	reports/office materials
Create job description for HCN counterpart for SS project	KCLF/PCV	office materials
Jan/Feb		
Project on hold		
March		
Interview candidates for BDS employee	KCLF/PCV	newspaper job ad
Train new employee on BDS/SS project	PCV/BDS	--
Determine businesses for preliminary research	BDS (henceforth BDS incl PCV)	
April		
Interview 5 SS candidates, 3 days a week all month	BDS	occasional transport
Select 1 SS at end of month	KCLF/BDS	interview analysis
Discuss criteria		
Review ranking		
Review interview information		
Determine best choice		
May		
1st week		
Create budget for following 2 month period	BDS	cost estimates
2nd week		
Analyzing the Subsector to determine constraints and opportunities		
Draw preliminary subsector map	BDS	draft of map
3rd and 4th week		
Hold conference with BDS specialist	KCLF/BDS/	office materials
Teach BDS/KCLF staff importance of SS study	ACDI/VOCA volunteer	Prep to host volunteer
Preparation for workshop		
Invitations		office materials
Logistics		lunch
Presentation information		
May 21, 1999 Sewing Sector to workshop	BDS/ ACDI-VOCA vol	
Intro to BDS at KCLF		
Intro to subsector approach		
Explanation and editing of subsector map		
Brainstorm constraints		
Brainstorm opportunities		
List all unknown questions in the sector	BDS	

/

June		
Tailor questionnaire for different in-depth analysis	BDS	office matls,
1st and 2nd weeks		
Interview 12 suppliers of raw materials	BDS/interviewees	
3rd and 4th weeks		
Pass out surveys to 57 random consumers	BDS/interviewees	
July		
2nd and 3rd weeks		
Interview 15 sewers (not incl from prelim. interviews)	BDS/interviewees	occasional transport
4th week	BDS	
Revisit list of unknown questions, decide research complete		
Create preliminary list of constraints		
Revise list to constraints within our abilities to improve		
Identifying Potential Interventions	BDS	office materials
Brainstorm list of interventions to alleviate these constraints		
August		
1st week		
Create a shortlist of interventions		
Analyze costs of 4 possible interventions		
Present 4 variant to KCLF staff for approval		
Preliminary Intervention Program	BDS	office materials
Select intervention with considerations for		
Practicality		
Resources		
Cost effectiveness		
Simplicity		
Leverage		
Devise plan		
4th weeks		
September		
Implementation of Intervention Program		
News Articles	BDS/KCLF	articles and ad fees
October		
2nd and 3rd weeks		
preparation for Seminar/Trade Show on October 19th	BDS	stickers/comment forms/hanging racks/ copies
4th week		
Meeting with Employment Support Fund	BDS	
November		
1st week		
General meeting to form association	BDS	copies
2nd- 4th weeks		
Series of meetings with work group	BDS/work group	copies
Mission and Goals		
Charter		
Membership criteria		
Official questions		

11

December

1st week

Round Table at the City Administration	BDS	questions, copies

3rd week

Fax with explanation to local newspaper for free advertising of assembly	BDS	office materials
First general assembly charter approved, Officers and BOD members elected Baseline survey handed out	BDS	charter, paperwork, survey

4th week

submission of charter and documentation for registration at city administration	BDS	

January – May (tentative plan)
Continuous activities and monthly officers meetings

January
Seminar/experience sharing of technology of fabric
Organization of spring fabric purchase
Marketing training

February
Trade show to prepare for spring, necessary advertising

March
Training for cutting

April
Trade show to prepare for spring graduations and 'prom,' necessary advertising

May
Advertising for sellers of local clothes, trade show to prepare for summer

Annex B 1

Schedule of Workshop
May 21, 1999

9 00-3 00 Client/non-client subsector specific workshop
(revised actual schedule)

9 15-9 50	Introduction of BDS staff, handing out of supplies and schedule Short introduction of participants (Too) Brief statement of objectives To inform them of the BDS unit, current and potential activities to inform of the subsector process to gather information on their ss s constraints and ideas for interventions Introduction of the business chain and how BDS could help at any stage Introduction to best practices with lead in to why the subsector approach
9 50- 10 10	SS Methodology Process Paired up the theoretical with the actual work done In conclusion broke down the 3 steps Selection, Analysis and Project implementation and showed what is finished, in process and to be completed
10 10 – 10 30	Break
10 30- 11	Introduction to a subsector map Why it is used. Definitions taught (need to be written down) First describe a generic map
11- 12	Hand out actual map that we have come up with through our research Read through all canals, explain arrows, broken lines Ask for their input Do they agree, disagree, changes, additions Finally quantify (We did how many producers are working per canal and how many retail sellers ? may do how many people in each trade group, how many work places etc) Redraw final map agreed to by participants so they can see and again approve
12-1	Lunch
10 mins	(NEEDED- how to work in group, not to be dominating or critical of each other)
1 10-1 40	Hand out and (BETTER) explain matrix used to identify constraints at every step in the business chain and identify which trade group is suffering that constraint Give example Remaining time to fill out matrix in small groups
1 40 - 2 20	Read to other groups and to facilitators, constraints found Discuss
2 20 – 2 30	Break
2 30 – 2 50	Explain that now third column will be filled in. Small groups will list possible BDS unit interventions to help alleviate constraints
2 50 – 3 30	Read to other groups and to facilitators Discuss possible intervention ideas Facilitator summarizes idea.
3 30	Conclusion and evaluations

Annotated notes of Phases 1, 2 and 3 of workshop

Annex B 2 a

<u>Phase 1</u>

The BUSINESS CHAIN will be explained

What is the role of BDS at every step?

1 What can we do for clients?

How well are entrepreneurs working at every step in their own businesses?

	Possible Ideas
DISTRIBUTION/SALES	Group sales, wholesales ie order for 200 dresses spread Over 20 women who can only make 10 dresses
MARKETING	Provide info & linkages w/ different markets where there Is unmet demand
MANUFACTURING	Improved design, training, technology, diversification, quality, efficiency Any outsourcing
SUPPLY LINKS	Wholesale, retail, credit Facilitate group buying Lower costs, increase their profits
NEW PRODUCT IDEAS	Teach how to research, determine supply and demand, Determine costs Maybe business startup trngs

Goal is to increase profit of clients

BEST PRACTICES in the field of Business Development Services

Must be demand driven Just like a business, we must offer what clients want, not what we want to give

Must be subsector specific General trainings and projects have shown to be less effective

Must be cost recoverable – must know our costs and must charge a fee Clients willing to pay also is a signal of their demand for the services

Annex B 2 b

<u>Phase 2</u>

2 trainers will alternate between Theory and Practical Can also be divided into past, present and future work 20 minutes

As Kelly has mentioned, a BDS unit will be more effective if one specific subsector is chosen to work with There are three main steps in the subsector methodology subsector selection, subsector analysis, and project design and implementation I will explain these in theory Sandygash will tell about the practical work we have done

1 SUBSECTOR SELECTION the first step is the selection of one subsector in the local economy that has high potential for development and fits within the capabilities of our BDS unit of KCLF

A Theory in order to do this, preliminary subsector candidates must be chosen even if with limited information
Practical from our client database, we started with 5 subsectors They were bread production, sewing, office supplies, oil production, and hot food service

B Th Criteria from which to evaluate the candidates must be chosen For example unmet market demand, the possibility to create new work laces, and the percentage of woman involved
Pr We made a list of the criteria that we at KCLF find most important. From this list we will rate the 5 subsectors

C Th Interviews need to be conducted with key informants within each subsector at different steps in each subsector (At all trade group levels) Questions asked will be based upon the criteria chosen
Pr We spoke with more than 50 businesses in all, some from each subsector and some at various levels of the channel from raw material suppliers to finished good sellers

✓

D Th By the criteria selected and the information gathered, must give a ranking to each criteria of each subsector to create a score sheet
Pr After finishing our interviews, we sat and have a score to every criteria in each of our 5 subsectors

E Th Complete totals for each subsector and chose one subsector to further study
Pr Calculated the scores and chose the sewing subsector Even though the score was only 2nd highest, we thought that their needs better matched our resources

2 SUBSECTOR ANALYSIS
Th Further research in the chosen subsector to learn opportunities and constraints within the subsector chain.
Pr We will conduct more detailed interviews with more members of the sewing subsector in order to find demand driven implementations

3 PROJECT DESIGN AND IMPLEMENTATION
The goal will be to implement cost-effective interventions that will help a large number of businesses at one time These interventions could occur at any step of the business chain, which Kelly described, at any point within the sector

Annex B 2 c

Phase 3

Subsector Map explanation

In order to see an overall view of what is happening in a subsector, a subsector map should be drawn. A subsector map summarizes the economic relationships among businesses in the subsector

You remember from the opening session that a subsector is a network of firms that supply Raw Materials, transform them into finished products, and distribute them to a market for sale By the end, the firms are all producing a same, final product In your situation, clothes

The flow in the system presents options for small businesses In this process we can also analyze opportunities and constraints

Let's start to draw, in case it is not clear

We know that everything must start from Raw Materials They may be bought wholesale or retail Next the raw material must be transformed in Production The materials will have to be cut, sewn, buttons added, and ironed Finally the finished clothes will be distributed and sold in wholesale, retail or per order markets

How exactly this process occurs can vary We can show the variations on our map

Let's do two examples First, large factories They will buy materials at bulk prices from a wholesale supplier Inside the factory everything will be done from cutting to ironing And these factories even have their own retail stores so they also do the selling step From the boxes we can see that only 2 businesses are involved in this process

Second example Smaller enterprises that buy smaller amounts at retail supplier They alone cut the materials and sew But then sell the unfinished product to another firm that only does buttons and irons the final piece These firms then sell to individual customers who have ordered the clothing In this example 4 different businesses were involved in the process

We call these vertical supply lines **channels** Since the processes are different, we want to draw them separately

Now lets look horizontally across a line These businesses are involved in one stage of the process For example, the retail selling of fabric This one activity is called a **trade** All the businesses belong to the **trade group**

Additionally, take notice that every business, whether large or small, has their own business chain

These are the fundamentals of the subsector map Now we want to show you the map that we have drawn based on our research. Candygash will explain the 4 different channels that we have found in our local industry

Our goals are to have you understand the map we've created, but most importantly, discuss the channels We want you to add or delete what is written, as well as add additional channels we might not know about

And once we have a common opinion, we will try to determine how many businesses are in each trade group

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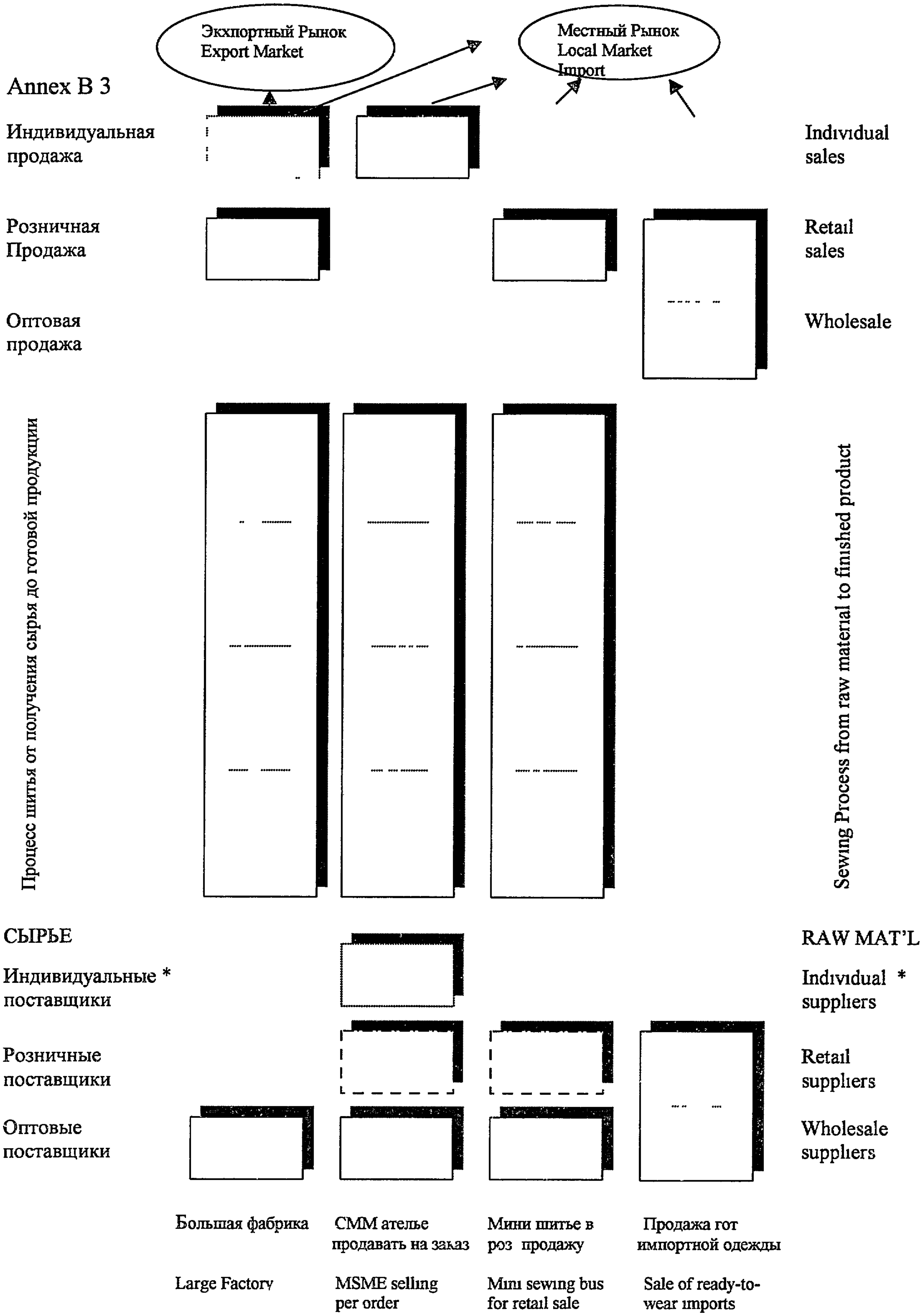
Annex B 3


Экхпортный Рынок
Export Market
Местный Рынок
Local Market
Import
Индивидуальная продажа
Individual sales
Розничная Продажа
Retail sales
Оптовая продажа
Wholesale
Процесс шитья от получения сырья до готовой продукции
Sewing Process from raw material to finished product
СЫРЬЕ
RAW MAT'L
Индивидуальные * поставщики
Individual * suppliers
Розничные поставщики
Retail suppliers
Оптовые поставщики
Wholesale suppliers
Большая фабрика
СММ ателье продавать на заказ
Мини шитье в роз продажу
Продажа гот импортной одежды
Large Factory
MSME selling per order
Mini sewing bus for retail sale
Sale of ready-to-wear imports

уип