

A private sector business development service provider, supported by AKF, provides technical advice to small entrepreneurs in Pul-i-Khumri, Afghanistan.



In taking a market development approach AKF works with enterprises of all sizes. Depending on where market constraints are, AKF may design interventions to work with both rural farmers and small and medium sized businesses, and link the two. Importantly, however, the focus remains on benefiting the poor and doing so sustainably within the market context.

other interventions, AKF promotes the purchase of improved seed varieties and post-harvest cleaning in the field, and as well, supports the development of producer groups and lead farmers capable of effectively bulking local production.

Cost Sharing & Building Capacity

The Foundation partners with a variety of stakeholders – both public and private – and uses cost-share mechanisms to ensure entrepreneurs value the services, and as well, to ensure service providers' commitment and investment in the sector. Selective, time-bound subsidies are used to develop or demonstrate markets rather than to pay for ongoing services or purchase outputs. Examples of the type of subsidies include:

- Contributing to the costs for an entrepreneur or small business to participate in trade shows
- Purchasing and operating equipment to demonstrate new technologies
- Paying for legal advice to support the expansion and strengthening of business or marketing associations
- Providing space for suppliers and buyers to meet with producers
- Developing the capacity of trainers to enable training organisations and/or business development service providers (BDSPs) to meet the needs of growing enterprises

In Afghanistan, for example, AKF helps to develop BDSPs to ensure that all required business development services in the identified subsectors are available through the private sector. The enterprise development unit of AKF-Afghanistan conducts market assessments to ascertain and identify business development needs and ways in which AKF can promote those services to reach a large number of enterprises. Based on the results of the assessment, AKF designs training programmes through which knowledge is transferred to local BDSPs, who in turn provide services to micro and small enterprises. The BDSPs go through extensive training courses organised by reputed private sector BDS organisations in neighbouring countries. Once trained, the BDSPs are then linked with entrepreneurs to provide vocational and entrepreneurial training, technology services, product development, linkages to service providers (e.g. microfinance, transport), promotion and marketing services.

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The Aga Khan Development Network (AKDN) is a group of private development agencies working to empower communities and individuals, often in disadvantaged circumstances, to improve living conditions and opportunities, especially in Africa and Asia. Its agencies work in over 30 countries for the common good of all citizens, regardless of their gender, origin or religion. Its underlying impulse is the ethic of compassion for the vulnerable in society.

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Enterprise Development: Taking a Market Development Approach

According to an article by the United Nations Industrial Development Organisation (UNIDO), a vast majority of people in the developing world are micro and small producers whose livelihoods depend on income from selling their products. Their incomes are limited, however, by various factors including lack of access to knowledge, information, skills training and services; physical and commercial isolation from markets; uneven competition with imports and price distortions due to trade policies; and declining productivity resulting from environmental degradation and inequitable resource distribution. Enterprises run by the very poor, including beneficiaries of the Aga Khan Foundation's (AKF) programmes, have specific constraints that exacerbate their poverty such as geographic or socio-cultural isolation.

The Aga Khan Development Network's long experience and breadth of expertise

in private sector development provides AKF with a distinct comparative advantage in facilitating the development of enterprises. Job creation and development of micro and small enterprises is a growing priority for AKF rural development programmes, where the primary focus is to strengthen the private sector to increase and diversify income and employment opportunities, stimulate economic growth, and improve livelihoods for residents of AKF's targeted geographical areas. The main goal of enterprise development at AKF is to expand the capacities and income earning opportunities of the poor through creating linkages between producers and markets and facilitating access to skills, resources and information.

AKF's Role

AKF has a history of over 25 years in rural development focusing on poverty alleviation through a variety of means including income generation and livelihood enhancement, as well as access to

social services. Within its development programmes AKF has begun to move beyond poverty alleviation to prosperity creation through livelihood enhancement programmes that are *market-oriented* and enterprise development (also called sub-sector or value chain development) programmes that are *market-driven*. In terms of long term sustainability, both develop and rely on *market-based* solutions. Enterprise development thus differs from livelihood enhancement, which focuses primarily on increasing production, by focusing on developing markets:

- What products are markets demanding? In what quantity? What is the competition? What are the current and upcoming trends (local, national, global)?
- Can producers meet this demand in terms of selected products as well as the quality and quantity required? Can they do so in a profitable manner?
- Is there potential for AKF to develop viable value chains linking producers to effective markets, and will these continue to exist after AKF's intervention? What

In Mozambique, AKF helps to increase rural incomes by promoting enterprise development. It works with producers and technical service providers to increase product quality, and facilitates linkages to markets such as this craft market.



Background

Microfinance became popular with development agencies in the 1980s and was seen by some as the means to alleviating poverty. If poor people simply had access to credit and savings, they would be able to run successful businesses and lift themselves out of poverty. As time went on, there was recognition that additional training and business planning was required to ensure repayment of loans.

In the 1990s, it became clear that micro-entrepreneurs required more than just access to financial services, and a new field called business development services (BDS) developed. Government agencies and NGOs became involved in the provision of BDS, either as direct providers or through subsidising services delivered by others. This resulted in a lack of private sector BDS providers and outreach was limited by the amount of donor funding available. All in all this approach proved unsustainable. This led to a shift in the last decade from providing services directly to facilitating service provision through the private sector.

Today, donors and governments support facilitators – NGOs or projects – to work with commercially viable service providers to provide services over the long term to micro, small and medium enterprises.

Cover photo: Ibo Island, Mozambique.

will the value chains look like? How can AKF best facilitate their development, and what is the exit strategy?

AKF's role is thus to facilitate market development through building the capacity of service providers and creating market linkages to integrate the rural poor into higher-value markets. It does not set up and run its own businesses or purchase products from beneficiaries to on-sell. If AKF feels it has a comparative advantage to advocate on behalf of its beneficiaries, it will also liaise with government to affect policy and/or play an advocacy role for the entrepreneurs it supports.

To develop an enterprise one generally requires:

- Skills training (technical skills such as tailoring, masonry etc.)
- Business development services (BDS) such as business planning, entrepreneurial training and mentoring
- Access to service providers such as financial services, transport, accounting etc.
- Linkages to suppliers and buyers
- Market information (particularly for commodities)
- Effective business associations
- Enabling business environments

AKF works closely with the private sector and government to facilitate and support all of these requirements.

Remote Rural Areas

In the remote areas where AKF works, it is generally difficult to find markets. Also, often times the state is either absent or inefficient, making for less than favourable environments. This makes the realities of taking a market development approach much more difficult, but no less important. AKF works in ways that take into account the challenging environments of the rural poor. Determining the best way to improve

incomes through linking the poor to high-value markets requires innovative thinking and pilot testing in both remote coastal plains and rugged mountainous areas.

In Coast Province, AKF's Coastal Rural Support Programme Kenya's (CRSP(K)) focuses on increasing the number of income generating opportunities available to the rural poor. Beekeeping is one such activity that has been supported to foster economic growth in the region. Beneficiaries living in Majengo, a small and remote village situated far from major markets, suffer from frequent drought and famine. Through CRSP(K), beekeepers receive training and gain knowledge and skills on beekeeping management and honey harvesting processing and storage. CRSP(K) established a link with HoneyCare Africa, who agreed to purchase all the quality honey the farmers produced, providing a guaranteed market for the producers. Many beekeepers have seen their monthly income increase by as much as 25 percent. With this additional income, poor farmers can pay school fees for their children and buy more food and clothing. "I also use it to pay medical bills when the need arises. Occasionally, I use the money to purchase some livestock, a small goat or a few chickens," one farmer explained.

Focus on Markets

AKF's enterprise development activities focus on markets rather than any single organisation. The Foundation conducts market assessments and evaluations and undertakes research to determine how to strengthen supply of and demand for services. It addresses market failures/gaps by forming linkages, facilitating market access and providing market information. As well, AKF facilitates training and product development through identifying and linking business development service providers (BDSPs) with entrepreneurs. It also helps

to strengthen marketing associations and combine sales to achieve higher prices.

AKF's Rural Support Programme in Syria works to facilitate the development of the olive oil sector through improving the quality of olive oil produced and facilitating access to higher value inputs. AKF provides technical assistance related to olive farming, harvesting, milling and storage; supports an existing olive oil association in its transformation to a commercial entity; and facilitates market linkages.

AKF encourages farmers to work collectively in various parts of the olive processing chain, such as sharing transportation, joint pressing, bulk containment of olives, and combining sales through recruitment campaigns. It also supports farmers by collecting sales information from oil exporters to determine the best time for farmers to sell their oil.

Value Chain Analysis

The Foundation's activities in enterprise development address constraints identified through value chain analysis. Value chains include the full range of activities and services of market actors required to supply a particular set of products or services to a particular group of consumers. Value chains include producers, processors, suppliers, exporters, retailers and others, as well as service providers including microfinance institutions, consulting firms, training organisations etc. The objective of value chain analysis is to:

- Identify primary actors, their roles and relationships
- Identify sales markets, unmet demand
- Identify constraints that inhibit growth/competitiveness

- Determine the need for support services
- Determine solutions and design interventions

There are various value chains within a subsector. To select promising value chains, AKF identifies potential subsectors and conducts market research to determine the most viable value chains. The starting point for selecting a subsector is *quantifiable market demand*. The second is the *capacity of producers* (current or potential) to meet that demand on a number of levels (quality, variety, timing, consistency, volume, pricing etc.) and to remain profitable. Finally the *actual functioning* of the subsector including the presence and quality of supporting services as well as the enabling environment needs to be evaluated and considered in order to design appropriate and sustainable market-based interventions.

For example, in Cabo Delgado Province, Mozambique, the sesame subsector is a relative newcomer internationally with major inefficiencies in its current supply chain. Through value chain analysis, AKF identified significant unmet market demand for sesame and as well, determined that Mozambican sesame is favoured amongst international buyers. AKF also identified a lack of sustainable inputs and insufficient production knowledge resulting in low volumes. Further, there is a lack of seed cleaning at the farm level (resulting in high impurity levels) and a lack of product bulking at the field level resulting in higher costs. AKF thus focuses on the low-value unprocessed market, recognising that significant gains can be captured by smallholder producers through improving operating efficiency (e.g. production practices), input provision and product bulking at the community level. Amongst

Value Chain Analysis

Value chains are selected based on:

- The existence of markets
- Market growth potential (domestic and international)
- Potential to contribute to poverty reduction, and the
- Capacity of AKF's target groups to sustainably engage in the sector

Value chain analysis includes:

- Secondary research
 - Review existing data
 - Select promising subsectors for further research
- Market assessment
 - Conduct primary research including interviews, focus group discussions
 - Map subsector and select value chains
- Constraint analysis
 - Identify key constraints
 - Prioritise constraints
- Solution development
 - Identify commercial solutions to key constraints
 - Develop sustainable solution strategies
- Intervention design
 - Develop interventions to sustainably facilitate solutions



Safflower oil being produced with an electric press in the Rasht Valley in Tajikistan. This activity is supported by AKF Tajikistan who facilitates access to advanced technical knowledge and encourages farmers to jointly purchase inputs to benefit from lower prices.