



HARVARD Kennedy School
Corporate Responsibility Initiative

GROWING TOGETHER

STRENGTHENING MICRO-ENTERPRISES IN VALUE CHAINS

A guide for companies to
strengthen micro-enterprise
market systems



FOREWORD

In many parts of the world, micro-enterprises play an important economic role and are key to tackling big challenges that face society. Micro-enterprise growth and success can help address poverty, unemployment, climate change and gender inequality. However, micro-enterprises face many obstacles that limit their ability to succeed.

Governments, civil society organisations, donors and the private sector have made significant commitments and investments to help enable micro-enterprises to thrive. In the private sector, given the critical role micro-enterprises play in value chains, a number of large companies have worked to strengthen micro-enterprises as part of building sustainable value chains. If companies get this right, there is a clear ‘win-win’ in terms of both commercial and social impact. These initiatives are delivering results and establishing models that work to address certain micro-enterprise needs, for example skills development and access to finance.

However micro-enterprises have a broad range of needs and are operating in complex market systems with a network of commercial and non-commercial relationships. Many existing efforts to support micro-enterprises address only part of the picture, so are limited in their ability to drive transformational change. There is a need to drive towards greater collaboration across government, civil society, donors and the private sector.

This report highlights the key challenges micro-enterprises face and the transformational opportunity to take a collaborative, market system approach to enabling micro-enterprises to thrive. It also provides a guide to the five success factors that are critical for strengthening micro-enterprise market systems through collaboration. The guidance is particularly directed at large companies seeking to strengthen and empower micro-enterprises in their value chains, but the findings are relevant for everyone with a stake in the success of micro-enterprises.

The sponsors of this report have worked collaboratively with one another and with many other partners on micro-enterprise development. We have also attempted to work at the level of market systems rather than simply value chains. We know that this approach is not easy. Collaboration introduces competing agendas; it extends dialogue and timeframes; and it requires new ways of thinking and operating. Working at a market system level adds yet further complexity.

However, working collaboratively can realise benefits far beyond what any single organisation can achieve alone. It opens up access to broader expertise and different perspectives; it brings together collective investment, people and other resources; and it creates a unified voice and a platform to influence together for change at scale.

We hope this report provides companies with a valuable tool for shaping the role they can play in making real change happen for micro-enterprises, and for the people, communities, companies, economies and societies who depend on them.

Finally, we would like to thank Citi Foundation, the UK Department for International Development (DFID), the Inter-American Development Bank (IDB) and Accenture Development Partnerships (ADP) for their invaluable support and contributions.

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THIS GUIDE

This guide is intended for large companies, and their development partners, to enable them to help micro-enterprises in their value chains to thrive, with a view to unlocking greater commercial and social value for all.

The guide aims to:

- Demonstrate how collaborative action to strengthen micro-enterprises in value chains can achieve improved business performance and positive social impact
- Share practical examples of how companies are achieving this
- Inform company strategy, policies and initiatives related to micro-enterprises in their value chains
- Support advocacy efforts to encourage more collaborative approaches to micro-enterprise development

The guide recognises that “what works” is highly context-specific. It does not attempt to provide a universal blueprint, but rather a way of thinking and an approach that can be applied across contexts.

WHO SHOULD USE IT?

This document has been developed primarily for large companies in order to address a gap in the availability of guidelines and tools that respond to business objectives related to micro-enterprise development.

It is aimed at functions whose objectives depend at least to some extent on the performance of micro-enterprises within their companies' value chains.

This includes **procurement, sales and marketing, finance**, and other business functions, as well as **the corporate affairs and sustainability departments** that support them. It should help inform the development of new initiatives and those seeking to improve the sustainability, scale, and impact of existing activities.

While relevant guidelines and tools already exist within the development community, this document should also be useful to **civil society organisations, donors, and governments** seeking to partner with companies on micro-enterprise initiatives.

EXECUTIVE SUMMARY

Micro-enterprises are the lifeblood of many communities and a critical source of employment and livelihoods. Larger companies rely on the effective operation and growth of micro-enterprises in their value chains, as suppliers, distributors, retailers and customers.

It is estimated that there are over 900 million formal and informal micro-enterprises worldwide¹, defined in this report as self-employed women and men, and enterprises with fewer than ten employees. They provide the bulk of jobs and livelihoods in many developing countries and a high proportion are in business for want of other viable livelihood-generating alternatives. Many are women-owned, and all are more tightly integrated into the day to day affairs of the family compared to larger businesses. Being a micro-enterprise is inherently risky with very limited protection against rapid market changes or personal and family crises. All of these risks are intensified in countries with no or very limited social safety nets.

For larger companies, micro-enterprises are a critical part of upstream and downstream value chains. Micro-enterprises can help make supply chains more resilient, strengthen distribution, expand markets, and grow revenues, and often form a significant part of a company's social impact in communities.²

For communities, micro-enterprises are important sources of income and opportunity for owners and their employees to invest in education, nutrition, healthcare, and other services that contribute to quality of life and a virtuous cycle of development.³

However, many micro-enterprises today are struggling just to survive. They could create much greater value for themselves, for companies and for communities if there were greater targeted effort to address their needs.

Our research points to five categories of interconnected needs that cut across the diversity of micro-enterprise types.⁴

1. Business and technical skills
2. Access to fair and well-functioning markets
3. Access to affordable, appropriate financial services
4. Infrastructure and services
5. Enabling policy and regulatory environment

These needs limit the ability of micro-enterprises to thrive, of companies to realise the commercial value of their relationship with micro-enterprises in their value chains, and of the full potential of micro-enterprises' social impact in communities. They are also highly interconnected and cannot be tackled in silos.

To effectively address micro-enterprise needs and unlock the business and social benefits, all those with a stake in the success of micro-enterprises need to move towards a more collaborative approach.

Companies have traditionally supported micro-enterprises in their value chains through the provision of services which address one or a small number of needs, most commonly business and technical skills. This is often in the form of *bilateral partnerships* with companies paying an external organisation to deliver a service that addresses an identified need, or through broader *value chain collaboration* with a wider set of actors who have a shared interest in improving the overall functioning of the value chain.

While these approaches serve an important purpose and deliver encouraging results, there is growing recognition that interventions that do not address the full range of micro-enterprise needs can reduce the potential for achieving greater sustained impact – both for micro-enterprises and the companies supporting them.

Therefore, companies and other stakeholders need to move towards a more holistic form of collaboration with the aim of strengthening the broader “market system” in which their value chains and micro-enterprises operate.

Moving towards a “market system” approach requires companies to build a wider and deeper view of the landscape in which their value chains, and the micro-enterprises that operate in it, are located. They also need to explore the underlying barriers that prevent market system stakeholders from collaborating to support micro-enterprises to thrive.

Putting a micro-enterprise market system strengthening approach into practice is an ongoing process and takes time. It represents not a short-term fix but rather an essential part of long-term strategy, wherever business performance and social development depend on micro-enterprises' ability to thrive.

Companies, especially those with large numbers of micro-enterprises in their value chains, may need to play a leadership role in encouraging market system players to collaborate for the broader benefit of all involved, or they may participate in an initiative led by others.

To support companies in achieving this, our research identifies five critical success factors which are essential for designing and implementing market systems approaches:

- Understand micro-enterprise needs to gather insights on what constrains and motivates them
- Identify market system roles, capabilities and incentives to determine who should be part of a collaborative approach
- Establish the value proposition to outline how addressing micro-enterprise needs can achieve greater commercial value and social impact
- Coordinate effectively to ensure all stakeholders are committed and aligned to create value for all
- Measure results to demonstrate the impact achieved

In summary, companies, government, civil society and donors can achieve better outcomes for themselves and micro-enterprises if they move towards a collaborative “market system” approach to address the interconnected needs of micro-enterprises in value chains.



1. WHAT ARE MICRO-ENTERPRISES?

Micro-enterprises are the lifeblood of local communities and a critical source of employment and livelihoods.*

***DEFINITION OF A MICRO-ENTERPRISE**

Technical definitions of a micro-enterprise vary significantly from organisation to organisation and country to country. Definitions generally define micro-enterprises by their number of employees due to difficulties in comparing international data on business turnover and a lack of statistics on the informal sector.

In this report, we use the term “micro-enterprise” to refer to self-employed women and men and businesses with fewer than ten employees (consistent with the definition used by the International Finance Corporation).

Micro, small, and medium-sized enterprises make up more than 90% of all businesses globally, contributing more than half of all employment and more than a third of gross domestic product.⁵ And in developing countries, the vast majority of these are micro – more than 93%.⁶

It is challenging to accurately estimate the number of micro-enterprises in the absence of comprehensive data, but our research suggests that there are over 900 million micro-enterprises worldwide, including approximately 500 million smallholder farmers.⁷ A high proportion of these micro-enterprises are informal, meaning they do not pay tax and are unregulated by government. The number of **formal** enterprises worldwide is reported to be 131 million.⁸

Micro-enterprises contribute significantly to employment in many developing countries and are a key source of livelihoods and incomes for some of the poorest individuals and communities. For example, in Bangladesh **formal** micro-enterprises make up 71% of total employment, in Peru 77% and in Rwanda 51%.⁹

And a high percentage of micro and small enterprises are owned by women¹⁰. It is estimated in South Africa that 43% of informal micro and small enterprises are owned by women, and in Mexico, 54% of informal sole traders are estimated to be women¹¹.

WHAT MICRO-ENTERPRISES LOOK LIKE

Micro-enterprises are a hugely diverse group. Many are “necessity” micro-enterprises, who are in business for want of other viable income alternatives. Others are “opportunity” micro-entrepreneurs actively seeking to grow their businesses. Particularly for necessity micro-enterprises, business and family lives are often closely intertwined.

Being a micro-enterprise is inherently risky with very limited protection against rapid market changes or personal and family crises. All of these risks are intensified in countries with no or very limited social safety nets.

Examples of micro-enterprises in value chains

SMALLHOLDER FARMER



HIBISCUS FARMERS, SUDAN

Company: Africorp, a leading Sudanese trading company that supplies agricultural commodities

Location: Sudan, Africa

Africorp's Reach: 4,000 smallholder farmers supplying certified hibiscus

- Necessity micro-enterprises – predominantly marginalised women farmers who grow hibiscus on small-scale farms
- Located in the poorest states of North Kordufan and North Darfur
- Have the potential to expand supply to organic markets as favorable growing conditions mean farmers use virtually no chemicals for pest and disease control

KEY CHALLENGES

Historically, hibiscus farmers in Sudan have earned very little. Their production costs have been high and productivity has been low due to outdated growing and harvesting methods. Access to credit is also poor. Sudan's legal framework has limited farmers' ability to organise in groups. Poor infrastructure and absence of farm-level traceability has also constrained the development of the sector. Cultural norms often prevent women from travelling to sell hibiscus beyond the village.

ASPIRATIONS

Hibiscus farmers would like to have access to inputs like finance and receive advice and training to improve their farm output and livelihoods.

DISTRIBUTOR



OWNERS OF MICRO DISTRIBUTION CENTERS (MDCs), AFRICA

Company: The Coca-Cola Company and Coca-Cola bottlers

Location: Africa

Coca-Cola's reach: 3,200 MDCs in Africa, employing over 19,000 people

- Are 'opportunity' entrepreneurs – lower-middle income with high school education – and many have some prior business experience
- Distribute products to between 250 and 600 small retailers within 3-10 kms
- Make frequent but low-volume deliveries, often using push carts
- Hire on average five people

KEY CHALLENGES

To better manage their business operations, MDC owners need skills training on topics such as financial management, inventory control, efficient routing, and customer service. Women MDC owners particularly need business skills training, access to finance, and opportunities to learn from other entrepreneurs. Without access to finance, MDC owners have a limited capacity to grow and they typically use their personal savings or raise capital through friends and family. Those who access formal financial services require support to identify a bank for a loan, as well as support during the loan application process.

ASPIRATIONS

MDC owners would like to expand their operations, upgrade their business premises, and invest in equipment.

RETAILER



TENDEROS (SMALL-SCALE RETAILERS), LATIN AMERICA

Company: SABMiller, a global beer and soft drinks company with operations in 80 countries

Location: Latin America

SABMiller's reach: 780,000 retailers (mostly women-run) who sell SABMiller products

- Small mom-and-pop shops (tenderos) that operate in urban and rural areas
- Mix of "necessity" and "opportunity" micro-enterprises
- Shops are typically around 40 square feet, with 60-70% of shops in the owner's home
- Sell products such as food and beverages, household goods and mobile phone airtime
- Shops act as community social hubs and meeting places

KEY CHALLENGES

Tenderos often lack business skills, and their small size impacts their ability to make bulk purchases and to negotiate prices with suppliers. Revenues are low and unpredictable which limits their investment in technology and store upgrades.

Most *tenderos* do not employ people and work long hours, often at the expense of their personal lives. They face increasing regulation (e.g. operating hours, health and sanitation practices) and high levels of competition. For some, informality increases their cost of credit and prevents them from obtaining social security.

ASPIRATIONS

Many *tenderos* aspire to grow their businesses to improve their quality of life and education opportunities for their children. At the same time, *tenderos* believe business growth and "formality" can make them more visible and more vulnerable to robberies, and could even lead to additional legal compliance requirements and taxation.

2. WHY ARE MICRO-ENTERPRISES IMPORTANT?

Micro-enterprises contribute to job creation and greater prosperity in communities. And large companies rely on the effective operation and growth of micro-enterprises in their value chains, often as suppliers, distributors, retailers and customers.

MICRO-ENTERPRISES MATTER

This large and diverse group is essential to sustainable economic growth and success, and to community livelihoods and development.

For larger companies, micro-enterprises can help stabilise and diversify supply chains, strengthen distribution chains, expand markets, and grow revenues, and often form a significant part of their social impact in communities.¹²

By helping micro-enterprises to thrive, companies can:

- Procure greater volumes of higher-quality inputs
- Enhance distribution efficiency, particularly in remote and low-income areas
- Increase product and service sales
- Improve the loyalty of existing customers and gain new customers
- Reinforce their license to trade
- Address and mitigate environmental concerns
- Enhance their socio-economic impact

For individuals, micro-enterprises are important sources of income and livelihood opportunities for owners and their employees.

When micro-enterprises thrive, individuals can:

- Earn higher and more stable incomes
- Provide better standards of living for their families
- Expand and grow their businesses sustainably
- If women, take significant steps towards empowerment

This is particularly true of micro-enterprises owned or operated by women, who often face social, political and economic barriers relative to men. Studies in multiple countries have shown that women are more likely to spend their income in ways that benefit their families, such as food, healthcare and education.¹³

For communities, micro-enterprises contribute to job creation and greater prosperity, which enables greater access to education, nutrition, healthcare, water and sanitation and other services that contribute to quality of life and a virtuous cycle of development.¹⁴

When micro-enterprises thrive, **communities** can:

- Provide and benefit from essential products and services
- Access jobs that provide higher and more stable incomes and better standards of living for others
- Benefit from improved community cohesion and leadership

When micro-enterprises thrive, **governments** can:

- Achieve more inclusive economic growth and job creation
- Foster greater social stability, peace, and security
- Secure increased tax revenues

And **donors and civil society organisations** can:

- Achieve more sustainable impact at greater scale, thereby fulfilling their organisational missions to, for example, improve livelihoods and support women's empowerment
- Demonstrate collaboration with business and adoption of market-based approaches



THE GLOBAL GOALS
For Sustainable Development

The Sustainable Development Goals (SDGs) set out global development priorities adopted by nearly 200 United Nations member states in September 2015.

Micro-enterprises will play a critical role in achieving the goals.

As governments establish their national SDG plans, a key priority will be developing innovative initiatives aimed at supporting micro-enterprises to thrive.

THE ROLE MICRO-ENTERPRISES PLAY IN COMPANY VALUE CHAINS

Companies across many industry sectors rely on micro-enterprises in their value chains. They are often customers and/or fulfil a broad range of vital roles in value chains as suppliers, distributors and retailers.

Their relationships can be transparent where companies are aware of the micro-enterprises in their value chains or opaque, with companies unaware of their role in the upstream or downstream value chain.

CONSUMER GOODS



With about 80 per cent of the food consumed in Asia and sub-Saharan Africa produced by small-scale farms according to the International Fund for Agricultural Development (IFAD)¹⁵, smallholder farmers make an essential contribution to local food security and are increasingly important suppliers to food and beverage companies.

RETAIL



FINANCIAL SERVICES



Accenture and CARE International UK¹⁶ estimate that banks can achieve an additional US\$380 billion market in annual revenues by targeting micro-enterprises and bringing unbanked and underbanked adults into the formal financial system.

ENERGY



INFORMATION COMMUNICATIONS TECHNOLOGY



GSMA estimates the mobile industry in sub-Saharan Africa contributed more than US\$100 billion¹⁷ to the region's economy in 2014 and 5.7 per cent of the region's GDP. The mobile ecosystem directly employed approximately 2 million people, with the majority working in the distribution and retail sectors, many in micro-enterprises.

EXTRACTIVES



AGRI INPUT SUPPLIERS



TOURISM



- Suppliers
- Distributors
- Customers
- Recyclers

3. WHAT DO MICRO-ENTERPRISES NEED TO THRIVE?

Many micro-enterprises today are struggling just to survive. They could create much greater value for themselves, for companies and for communities if there was deliberate effort to address their needs.

Our research points to **five categories of interconnected needs** that cut across diverse micro-enterprise types.¹⁸ These needs limit the ability of micro-enterprises to thrive, of companies to realise the commercial value of their relationships with micro-enterprises in their value chains, and of the full potential of micro-enterprises' social impact in communities.

Five categories of interconnected needs





SKILLS

1. BUSINESS AND TECHNICAL SKILLS

Micro-enterprises (owners and operators) need general business skills and industry-specific technical skills (such as water management or sustainable farming practices) to produce, market and sell in ways that maximise profits, and/or to manage profits in ways that enable them to achieve their own unique business and family goals. However, they often lack the skills that they need due to limited education and opportunities for training, networking and mentoring.



MARKETS

2. ACCESS TO FAIR AND WELL-FUNCTIONING MARKETS

Micro-enterprises need access to suppliers that offer inputs and services at prices they can afford, and to customers that create a predictable level of demand at fair prices and on fair payment terms. Some micro-enterprises are “asset and commercially ready” to participate in value chains but many are unable to access fair and properly functioning markets – on the supply and/or demand sides – due to lack of information, limited networks, low production volumes, quality issues, transport and logistics problems, inability to purchase in bulk, and poor marketing skills.



FINANCE

3. ACCESS TO AFFORDABLE, APPROPRIATE FINANCIAL SERVICES

Micro-enterprises, like all businesses, need financial services including various forms of credit, savings, insurance and digital payment systems for business continuity, growth and security. However, many lack access to appropriate and affordable financial products and services due to both demand and supply side challenges. On the supply side, challenges are the relatively high cost of small transactions, lack of collateral, limited innovation and availability of relevant products, and physical distance to banks. On the demand side, challenges are a lack of financial literacy, high costs, discriminatory attitudes and/or micro-entrepreneurs’ own mistrust of financial institutions.



INFRASTRUCTURE

4. INFRASTRUCTURE AND SERVICES

Micro-enterprises need adequate infrastructure and basic services at the community level, including water, sanitation, health, energy, telecommunications and transport to be productive and to keep operating costs low. But micro-enterprises, which are often located in rural and low-income urban areas, often suffer from limited or low-quality infrastructure and services, or services they cannot afford – leading them to miss out on opportunities (such as shipping products to external markets where prices are higher) or incur costs and risks (for example, by purchasing water from tanker trucks or illegally and unsafely tapping electrical lines). Access to technology infrastructure is also becoming increasingly critical as its transformational effects become more apparent, especially in relation to operating efficiencies, access to financial services and improved security.



POLICY

5. ENABLING POLICY AND REGULATORY ENVIRONMENT

Micro-enterprises need policies and regulations that facilitate access to financial services, markets, skills and infrastructure, and to ensure that they themselves operate fairly and safely. However, policies and regulations are often not conducive to micro-enterprise needs as they increase costs and stifle innovations that could enhance affordability and access to products and services. In some places, corruption and political upheaval can also be a factor.

At times, micro-enterprises need formal legal status to access the markets and public services they need to grow which enables them to sign and enforce contracts, take advantage of subsidised government lending, hire more employees and so on. However, micro-enterprises often find that the costs of formalisation exceed the benefits, at least in the near term, as a result of bureaucratic processes, long waits and high costs, including both licensing and renewal, and subsequent tax liabilities and fees.

Often informal and traditional governance and justice systems can be as important as formal governance mechanisms. For example, gender norms can be a serious barrier for women-owned micro-enterprises, and poor social capital and conflict can be highly disruptive for business.

WOMEN IN VALUE CHAINS

Many micro-entrepreneurs are women. Indeed, in some countries, women own the majority of micro- enterprises. However, historical cultural bias and its impact on the lending, support services and infrastructure for women undermine the sustainability and productivity of their micro-enterprises.

In many cases, women participate in business activities in addition to an already heavy burden of domestic work with limited support from their husbands or partners, or from public services. Women “face multiple obstacles that diminish their opportunities and potential as businesswomen and entrepreneurs. They have limited access to education and training, are less likely to be members of business associations, have less freedom to select their business sector, and are subject to discriminatory attitudes in property, marital and inheritance laws.”¹⁹

A key step towards improving productivity and sustainability of micro-enterprises is to identify the role of women, and tailor services and support to them. For instance, although cocoa is traditionally perceived as a ‘male crop’, women are deeply involved in cocoa production. In Côte-d’Ivoire they provide approximately 45% of cocoa-related labour and are usually active in 12 of the 19 typical steps of cocoa production²⁰, including those most critical to cocoa quality. These women therefore need to be reached with extension services, access to finance and access to other inputs²¹: all of which have too often been targeted at “the farmer” – the man who turns up to receive payment for the cash crop, but who may play only a very limited role in production.

It is critical to recognise the role of women in value chains and to ensure the needs of micro-enterprises are considered through a gender lens. If not, any initiatives aimed at addressing micro-enterprises’ needs will not achieve the impact intended.



These needs are highly interconnected and cannot be tackled in silos. For example, the inability of micro-enterprises to access affordable and appropriate financial services often results from their informal status and cultural bias, and their inability to access markets can result from a lack of relevant skills and properly functioning infrastructure.

These needs also vary considerably for different types of micro-enterprises in different places. Access to financial services is particularly complicated for smallholder farmers due to weather-related risk and the added cost of reaching remote, rural areas; women can face greater difficulties due to cultural attitudes and more limited ownership of collateral assets; and micro-enterprises in fragile states face heightened risks and a breakdown of trust.

And these needs are shifting in the face of climate change and environmental impacts. For example, farmers of key crops within value chains may face increasing climate and environmental challenges which require them to develop new approaches to farming, or indeed, new crops²².

This complexity can create discrepancies between what well-intentioned supporters believe micro-enterprises need and what micro-entrepreneurs themselves feel they need.

Ultimately, micro-enterprise needs can only be met if they operate in a strong and supportive market system.

Therefore, to effectively address micro-enterprise needs and unlock the business and social benefits, all those with a stake in the success of micro-enterprises should move towards a more collaborative approach to strengthen the market system they operate in.

A supportive market system for micro-enterprises



- Financial institutions offer the full range of financial services micro-enterprises need, including credit, savings and insurance, affordably and accessibly



- Banks, telecommunications and technology companies offer electronic payment options that reduce costs and increase access, security and convenience compared to cash
- Utilities, whether public or private, offer reliable basic infrastructure and services



- Governments offer clear regulatory and tax requirements that micro-enterprises can comply with at reasonable cost; provide public services such as agricultural extension; and maintain peace, security and rule of law



The entire business market system is sustainable, climate resilient and operates within environmental limits



- Suppliers offer inputs, inventory and services at reasonable prices and on payment terms that match their cash flows
- Buyers pay fair prices, reflecting reasonable shares of value created, according to predictable and well-communicated plans



- Educational institutions, trade associations, the media and civil society offer information, training, and mentorship covering both technical and business skills
- The media, cultural and religious institutions and society at large better recognise and value the roles of women and marginalised groups

4. HOW CAN A COLLABORATIVE, MARKET SYSTEM APPROACH ENABLE MICRO-ENTERPRISES TO THRIVE?

To effectively address micro-enterprise needs and unlock the business and social benefits, all those with a stake in the success of micro-enterprises should move towards a more collaborative approach to strengthen the market system they operate in.

EXISTING APPROACHES TO COLLABORATION

Companies have traditionally supported micro-enterprises in their value chains through the provision of services which address one or a small number of needs, most commonly business and technical skills. This is often in the form of **bilateral partnerships**, with companies paying an external organisation to deliver a service that addresses an identified need. For example, a company may invest in an NGO partnership to deliver business skills training for small retailer customers in its value chain.

Building on this approach, some companies support broader **value chain collaboration** to address a wider set of micro-enterprise needs, engaging existing value chain actors who have a shared interest in improving the functioning of the value chain in a way that benefits both themselves and micro-enterprises. For example, a company may collaborate with its suppliers and customers to ensure micro-enterprises are offered predictable and fair terms of trade in the value chain, and to share the costs of capacity building and skills development.

While these approaches serve an important purpose and deliver encouraging results, there is growing recognition that interventions that do not address the full range of micro-enterprise needs can reduce the potential for achieving greater sustained impact – both for micro-enterprises and the companies supporting them.

For example:

- Efforts by a company to build the skills of micro-enterprises in their value chain may ultimately be derailed if the same micro-enterprises also have to contend with poorly functioning infrastructure, limited access to financial services or a burdensome policy environment
- Increasing access to financial services and creating an enabling policy environment for micro-enterprises to thrive will be limited in their impact if companies are not providing access to fair and functioning markets through their value chains
- Many companies may offer skills development training to the same micro-enterprises, which could be further duplicated by skills development support from other stakeholders such as NGOs and government. While all well-intentioned, this can create confusion for the micro-enterprises, limit the impact of the interventions and lead to inefficient use of resources

Instead, companies and other actors are recognising the need to move towards a more holistic form of collaboration with the aim of strengthening the broader “**market system**” in which their value chains and micro-enterprises operate.

STRENGTHENING THE MICRO-ENTERPRISE MARKET SYSTEM

Moving towards a collaborative “market system” approach requires a company to build a wider and deeper view of the landscape in which its value chain, and the micro-enterprises that operate in it, are located. This can be achieved by exploring:

- **Commercial relationships** across the value chain
- The **operating environment**, considering the wide range of organisations that impact micro-enterprise operations e.g. competitors, financial institutions, trade associations, regulators and government agencies
- The **legislative and regulatory environment**, both existing policies and how (or if) they are enforced
- Social norms that guide day-to-day attitudes and conduct

Companies also need to explore the underlying barriers that prevent market system stakeholders from collaborating to support micro-enterprises to thrive, such as:

- **Lack of capabilities:** For example, financial services companies may not provide access to financial services to micro-enterprises because they have been unable to develop commercially sustainable products and services that are affordable and accessible.
- **Lack of awareness:** For example, companies supporting the same micro-enterprises may not realise that they are duplicating each other's efforts, or be aware of the other broader stakeholders engaging in their value chain.
- **Lack of incentives:** For example, governments may still be trying to resolve how best to engage micro-enterprises in the benefits of legally registering their businesses.

The barriers to adopting a market system approach are significant so companies should think about it as a long-term evolutionary process. Putting a micro-enterprise market system strengthening approach into practice is an ongoing process and takes time. It represents not a short-term fix but rather an essential part of long-term strategy, wherever business performance and development progress depend on micro-enterprises' ability to thrive.

Many companies have access through their value chains to thousands of micro-enterprises – a sphere of influence other stakeholders cannot replicate. Companies may need to play a leadership role in encouraging market system players to collaborate for the broader benefit of all involved, or they may participate in an initiative led by others.

To support companies in achieving this, our research identifies **five critical success factors** that are essential for designing and implementing market systems approaches.

Five critical success factors underpinning a market system approach



UNDERSTAND MICRO-ENTERPRISE NEEDS

Micro-enterprise needs are complex and diverse. Building a deeper understanding of the underlying factors that constrain and motivate them is critical. Understanding the target segment, including its line of business and its aspirations, capabilities, and needs – including the root causes of those needs – is necessary to designing collaborative efforts that enable them to thrive.



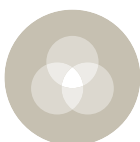
IDENTIFY 'MARKET SYSTEM' ROLES, CAPABILITIES AND INCENTIVES

Identifying the other stakeholders in the micro-enterprise market system and understanding their incentives and capabilities to act in new ways, provides a view of who can do what to address micro-enterprise needs and where there are gaps. This indicates who companies can collaborate with and how.



ESTABLISH THE VALUE PROPOSITION

Understanding how to address micro-enterprise needs can help a company achieve its commercial goals and drive positive social impact. This requires a transparent view of where micro-enterprises are located in the value chain, their roles and the nature of the relationship – whether direct or indirect. This analysis helps outline the value proposition and underpins the business case for investing in strengthening micro-enterprises and the market system.



COORDINATE EFFECTIVELY

Many different stakeholders will need to innovate and act in new ways in order to offer micro-enterprises better opportunities and outcomes that last over time – and to achieve better, more lasting outcomes for themselves. These stakeholders need a shared vision, plan of action and accountability mechanism to ensure they are committed and aligned on what each will do in order to create value for all.



MEASURE IMPACT

Measuring results for micro-enterprises, results for companies, results for communities and results for 'market system' stakeholders is key to understanding the impact achieved and to continuously improving the approach. It is also essential to communicating the impact.

In summary, companies, government, civil society and donors can achieve better outcomes for themselves and micro-enterprises if they collaborate to strengthen the market system to address the interconnected needs of micro-enterprises in value chains.

To explore how to develop and design a collaborative market systems approach, see the guide on page 22.

A collaborative market system approach



Understand
micro-
enterprise
needs



Identify
'market
system' roles,
capabilities
and incentives



Establish
the value
proposition



Coordinate
effectively



Measure
Impact

FIVE CRITICAL SUCCESS FACTORS



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CASE STUDY

BACKUS (SABMILLER), PERU: WORKING COLLABORATIVELY WITH COMPANIES, GOVERNMENT AND CIVIL SOCIETY ORGANISATIONS TO SUPPORT SMALL RETAILERS TO THRIVE

In Peru, small retailers (*bodegas*), many of which are owned and run by women, are a critical source of employment and livelihoods, and often serve as social hubs in communities. However, many operate on little more than a subsistence basis and are unable to respond effectively to even the very smallest income shocks. Small retailers tend to have limited business skills, lack access to financial services and operate informally.

For Backus, small retailers are an important product distribution channel. Over 96,000 small retailers play a role in Backus' distribution chain, accounting for approximately 40% of product sales. The challenges small retailers face result in inefficiencies in Backus' distribution chain, such as high cash handling costs and lack of sales growth.

APPROACH

Backus has collaborated with stakeholders across the private sector, government and civil society on initiatives that enable small retailers to thrive. This work is embedded in Backus' *integrated retailer value proposition*, a commercial strategy that offers a holistic suite of initiatives aimed at helping small retailers operate and grow their business. This strategy shifts Backus' engagement with retailers from a sales focused relationship (a "sell in" approach) to one where sales teams support retail outlets to develop their businesses and increase their sales (a "sell out" approach).

NEEDS	INTERVENTIONS
 SKILLS	Backus supports small retailers with access to skills training through SABMiller LatAm's <i>4e Camino al Progreso</i> initiative, in partnership with FUNDES and the Inter-American Development Bank . Retailers receive training on business skills, financial planning, effective store organisation and community development, as well as broader advice on business formalisation including how to obtain relevant permits.
 MARKET	Backus' Trade Marketing initiatives promote store infrastructure improvements and business expansion through consumer promotions and access to cold equipment, furniture and merchandising. Deliveries are made regularly and in small quantities to ease cash flow and storage constraints.
 FINANCE	Backus partnered with banks, microfinance institutions and government , including the Peru National Bank and Ministry of Social Inclusion , to increase small retailers' access to financial services. The initiative has enabled retailers, who previously had no access to financial services, to access payment services and obtain loans with preferential terms through mobile phones.
 INFRASTRUCTURE AND SERVICES	Banking infrastructure has been established in rural areas and selected retailers were provided with technology that enabled them to become 'mini-banks', providing an additional source of income and a valuable service in local communities. Retailers have also been supported to develop their own business "infrastructure" such as improved tables and chairs, fridges and toilet facilities.
 POLICY	Backus performs electronic payments through mobile phones, supporting the development of a new banking service within the country's financial system. This work has led to the development of electronic money regulations.

RESULTS:

For Backus: Cash collection levels have reduced from 60% to 30% of total transactions, saving Backus almost \$2.3m in cash handling expenses and helping reduce losses from theft. The creation of an *integrated retailer value proposition* has helped drive increased sales.

For small-scale retailers: More than 6,800 retailers have between them received \$38m in loans, helping them increase revenues by around 16%. Of this, 1,800 clients were offered \$1.2m in loans through mobile phones. 4,800 small retailers have received business skills training, and over 3000 retailers have received micro insurance. 1,200 retailers have set up as “mini banks”, earning a total of \$4.5m in additional income.

For the community: Over 1,400 community initiatives have been established by 4e participants focused on improving security, promoting cleanliness, recycling and education. And the number of banking points available in Peru has increased from 1,500 to 20,000.

For financial institutions: Increased their reach and acquired new customers, with loan impairments being very low.

NEXT STEPS:

Backus continues to focus on embedding the *integrated retailer value proposition* into its commercial strategy and strengthening its collaboration with partners. As a next step, it is leading a group of **large companies** and the **Bank Association** to develop a new mobile banking platform that will enable retailers to perform mobile transactions with their clients and suppliers.



CASE STUDY

BRAC DAIRY AND CARE: STRENGTHENING THE DAIRY VALUE CHAIN IN BANGLADESH

BACKGROUND

The dairy value chain in Bangladesh is weak, informal and fragmented. Quality and quantity of milk production per cow remains low. Opaque and inefficient milk collection and sales systems prevent smallholder farmers, who produce 90% of the country's milk supply, from benefiting from formal markets.

With most milk remaining in the informal sector, formal dairy processors and brands are unable to capitalise on the growing urban demand for milk and yoghurt and have unutilised processing capacity.

This contributes to farmers' continuing poverty and an average national dairy consumption of only 20% of World Health Organisation (WHO) recommended levels.

APPROACH

BRAC Dairy, the second largest milk processor in Bangladesh, and CARE Bangladesh have worked together with other stakeholders to improve the functioning of the dairy value chain to increase the quality and volume of milk produced and farmer productivity and incomes.

NEEDS	INTERVENTIONS
 SKILLS	CARE Bangladesh has trained farmers in animal husbandry, healthcare and feeding practices, and enabled access to market prices and opportunities. Farmers and milk collectors have been trained in hygienic milk-handling practices to reduce spoilage. With greater knowledge and incomes, farmer demand for quality feed and medicines has increased, allowing the Krishi Utsho network to reach financial profitability. Krishi Utsho franchise owners receive training on business skills and on the inputs they sell.
 MARKET	CARE Bangladesh has supported the establishment of over 1,600 dairy producer groups representing over 52,600 producers (90% of whom are women), enabling farmers to aggregate their milk before selling it to dairy processing companies, giving them more bargaining power, freedom and choice. Working with BRAC Dairy, CARE Bangladesh has piloted digital fat testing at community milk collection points and chilling plants to determine milk quality and the price farmers receive, and also to incentive farmers to improve quality. Through a chain of 70 micro-franchising agricultural input shops under the CARE Bangladesh-owned Krishi Utsho brand, dairy farmers are able to access feed, seed or veterinary medicines.
 FINANCE	CARE Bangladesh has facilitated savings schemes for all producer groups and provided training on financial literacy and management, helping to reduce risks and enable bulk purchase of inputs. A system that allows farmers to receive inputs on credit from Krishi Utsho micro franchisees against revenues from milk sales has also been piloted.
 POLICY	CARE Bangladesh has undertaken detailed macro policy analysis to identify key constraints in input service delivery and livestock extension services to inform national and local government policy development. BRAC Dairy, as a founding member of the Bangladesh Milk Processing Association, has also been very active in dairy policy discussions.

RESULTS

For farmers: Farmers have benefited from a 146% increase in production and a 71% increase in profit. There has been increased participation of women in traditionally male-dominated employment as well as nutritional gains amongst farming communities resulting from increased dairy consumption. Introducing digital fat testing at scale has improved milk quality by more than 30 per cent and individual farmer incomes have grown by up to 370 per cent.

For milk processors: In the pilot region, deliveries to processing plants increased by 350%, increasing revenues from milk deliveries by up to 500%. Leading local dairy processors and packagers PRAN and Tetrapak, have built farmer loyalty, increased access to a reliable supply of high-quality milk, reduced distribution costs and increased trust, transparency and capacity in supply and distribution chains.

For consumers: UHT milk contains 14 of 18 vital vitamins and minerals, requires no preservatives, and can remain fresh for several months without refrigeration. In a country where 48% of Bangladeshi children under the age of five are chronically malnourished and 30% of the population is below the minimum level of dietary energy consumption, there is scope for significant nutritional gains as a result of increased dairy consumption.

NEXT STEPS

CARE Bangladesh has played a key catalytic role in creating the business model and demonstrating its success. Going forward, BRAC Dairy will take leadership of the initiative so that it is embedded in the private sector supply chain to ensure long-term sustainability, and continues to drive the transformation of the dairy market system.



Other examples of collaboration in support of micro-enterprises

NESTLÉ PLAN BARRIO, ADOPEM BANK AND IDB/ MULTILATERAL INVESTMENT FUND: CREATING LIVELIHOOD OPPORTUNITIES FOR WOMEN IN THE DOMINICAN REPUBLIC

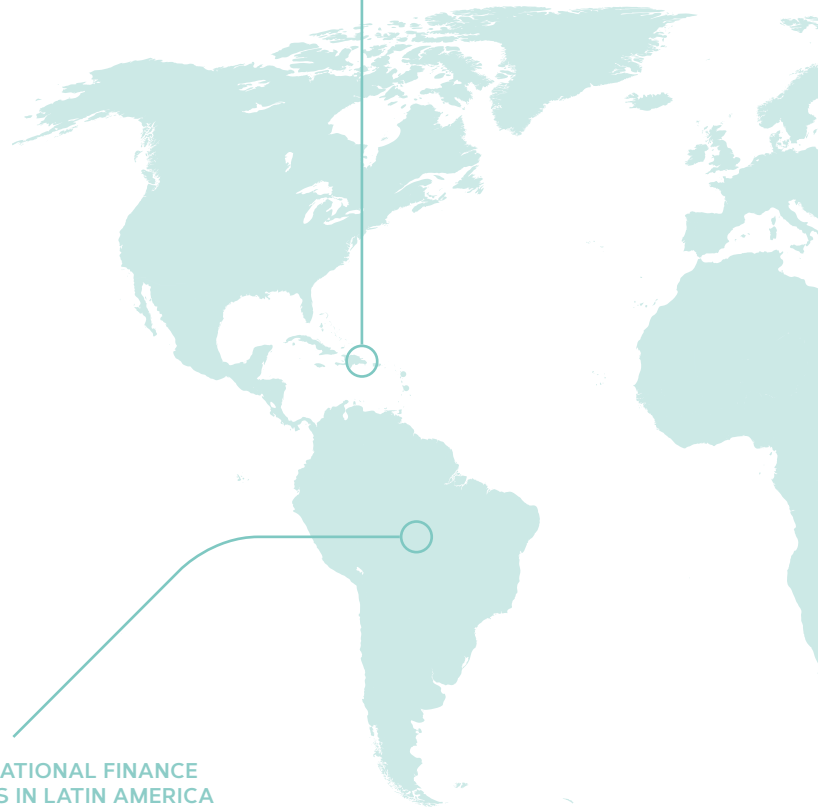
Nestlé has created the “Plan Barrio” initiative in the Dominican Republic, which incorporates 4,500 micro-distributors and sales people, predominantly women from low-income households, who sell affordable Nestlé products to consumers. Nestlé provides training and products to micro-distributors at a price which allows them to make a profit and Adopem Bank provides financing solutions.

In addition to introducing the parties and helping to bridge the cultural divide, additional financing support is provided by the IDB’s Multilateral Investment Fund (MIF) through the SCALA initiative, which aims to promote and scale inclusive distribution models. SCALA is also supported by Citi Foundation, the International Development Research Centre (IDRC/CRDI), and the Canadian Government. As a result of the programme, the majority of women have managed to double or even triple their incomes whilst working shorter hours. As a result of “Plan Barrio” sales have increased by 75% (2014-2015), currently accounting for 4% of Nestlé’s overall sales in the Dominican Republic.

ECOM, INTER-AMERICAN DEVELOPMENT BANK (IDB), INTERNATIONAL FINANCE CORPORATION, STARBUCKS: SUPPORTING COFFEE FARMERS IN LATIN AMERICA

In response to a lack of viable long-term financing for coffee renovation in areas impacted by the roya coffee plant fungus, the IDB (through the Inter-American Investment Corporation (IIC) and the MIF), World Bank/IFC, the Global Agriculture and Food Security Program (GAFSP) and Starbucks are partnering with ECOM, a commodity trading company, which sources coffee from smallholder farmers.

The partners have established a US\$30 million loan programme for small farmers, which will be administered through Atlantic, ECOM’s subsidiary in Nicaragua, and the GAFSP is providing a first-loss guarantee for the IIC and IFC loans. The IDB/MIF is providing funding to strengthen Atlantic’s internal capacity to administer long-term loans to farmers and improve its operating system, that centralises farmer and field information and collects assessments to obtain big data. Beneficiaries of the initial pilot are 560 Nicaraguan farmers, 85% of whom have fewer than 50 hectares under production. It is envisaged that the pilot will be expanded to include 3,000 farmers in ECOM’s supply chain in Nicaragua, Honduras, Costa Rica, and Mexico.



AFRICORP AND PRACTICAL ACTION: STRENGTHENING THE HIBISCUS VALUE CHAIN IN SUDAN

Africorp, a Sudanese trading company supplying regional and international buyers with agricultural inputs including hibiscus, is working with Practical Action and other partners to increase the capacity of smallholders growing hibiscus by introducing better quality seed and improving growing and harvesting techniques. With Africorp's hibiscus now certified organic, 4,000 smallholder farmers in Africorp's certification scheme are achieving better prices for their crops. Africorp has improved the functioning of the value chain and increased product integrity through investments in a new warehousing / storage facility and advanced processing technology. It has also enabled access to finance for smallholders and supported the creation of a hibiscus farmers' union.

More broadly, Practical Action has worked to strengthen the market system for hibiscus including improving farmer productivity and hibiscus quality, strengthening linkages between actors in the market chain – including greater collaboration between farmers, and strengthening the overall enabling environment.

PARTNERSHIP FOR SUSTAINABLE AGRICULTURE IN VIETNAM

In Vietnam, where there are approximately 400,000 coffee farming households, an initiative led by Yara along with Nestlé and Syngenta has brought together a number of companies, government, civil society organisations, and farmers to replace ageing coffee trees and provide extension and financing services. By the 2014-2015 season, farmers had increased their yields by 21% and net incomes by 14%, and decreased their carbon emissions by 63% and water usage by 30%.

As a result of these efforts, the Vietnam Ministry of Agriculture and Rural Development has established the Vietnam Coffee Coordinating Board, a permanent multi-stakeholder body hosted by the government. The Board's purpose is to help align government policies and programmes nationally to strengthen incentives for coffee sector stakeholders to sustain and scale promising approaches.

VODAFONE AND DIAGEO: INTRODUCING CASHLESS PAYMENT SOLUTIONS THROUGH M-PESA IN EAST AFRICA

Diageo's East Africa Breweries (EABL) has partnered with Vodafone to use its mobile payment system M-PESA to reduce the volume of cash transactions with its beer distributors. EABL Cashless enables distributors to order and buy stock, receive payments from bar owners and make bank deposits.

Distributors using the cashless technology platform have cut insurance and security costs, and improved operational efficiencies, which frees up more time to sell to bar owners and build relationships. Retailers using M-Pesa to make their payments to distributors are also able to establish a robust digital footprint, and thus access credit and savings with the Commonwealth Bank (CBA) and KCB via M-Shwari and M-Benki, which are financial products available to M-Pesa customers.



A GUIDE FOR COMPANIES TO STRENGTHEN MICRO-ENTERPRISE MARKET SYSTEMS

To effectively address micro-enterprise needs and unlock the business and social benefits, all those with a stake in the success of micro-enterprises should move towards a more collaborative approach to strengthen the market system they operate in.

This guide is intended for large companies, and their development partners, to help them achieve this. It details **five critical success factors** that are essential for strengthening micro-enterprise market systems through collaboration. For each success factor, the guide provides guiding questions for companies to explore, as well as tips and tools to consider.

These critical success factors should not imply a linear process, rather they identify key issues and considerations for companies when looking to design a new initiative or enhance an existing approach. The guide is industry and value chain agnostic, and should be tailored for a specific context.

Five critical success factors underpinning a market system approach



UNDERSTAND MICRO-ENTERPRISE NEEDS

Micro-enterprise needs are complex and diverse. Building a deeper understanding of the underlying factors that constrain and motivate them is critical. Understanding the target segment, including its line of business and its aspirations, capabilities, and needs – including the root causes of those needs – is necessary to designing collaborative efforts that enable them to thrive.



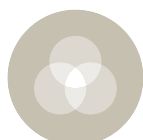
IDENTIFY 'MARKET SYSTEM' ROLES, CAPABILITIES AND INCENTIVES

Identifying the other stakeholders in the micro-enterprise market system and understanding their incentives and capabilities to act in new ways, provides a view of who can do what to address micro-enterprise needs and where there are gaps. This indicates who companies can collaborate with and how.



ESTABLISH THE VALUE PROPOSITION

Understanding how to address micro-enterprise needs can help a company achieve its commercial goals and drive positive social impact. This requires a transparent view of where micro-enterprises are located in the value chain, their roles and the nature of the relationship – whether direct or indirect. This analysis helps outline the value proposition and underpins the business case for investing in strengthening micro-enterprises and the market system.



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MEASURE IMPACT

Measuring results for micro-enterprises, results for companies, results for communities and results for 'market system' stakeholders is key to understanding the impact achieved and to continuously improving the approach. It is also essential to communicating the impact.



UNDERSTAND MICRO-ENTERPRISE NEEDS

GUIDING QUESTIONS:

- Where do micro-enterprises exist in your company's value chain; how many are there and what roles do they play?
- Is your relationship with them direct or indirect (i.e. managed by intermediaries), and are these relationships transparent or more opaque in your value chain?
- In what context do micro-enterprises operate? And what are the key local human rights, labour and gender issues related to micro-enterprises? (See *Foundational Insights box*)
- What are the **skills and capabilities** of micro-enterprises – where are they strong and where are they lacking e.g. accounting skills, marketing skills, procurement skills?
- Do micro-enterprises have **access to markets** for their products and services; if so, what markets and are they predictable and functioning effectively?
- Do micro-enterprises have **access to affordable and appropriate financial products** and services such as credit, savings, payments and insurance?
- Are micro-enterprises impacted by **infrastructure** constraints such as access to electricity, water and sanitation, healthcare, transport and technology infrastructure?
- How are micro-enterprises regulated and how do legal and regulatory requirements constrain or enhance their business operations?
- What are the existing relationships micro-enterprises have with other actors in the value chain and in the broader market system, including companies, government, civil society organisations and donors?

FOUNDATIONAL INSIGHTS

To build a deep understanding of micro-enterprise needs, it is critical to first understand some demographic, economic and social insights that provide broader contextual analysis and understanding, such as:

Country context: Political system, social and cultural norms (especially relating to women and girls), security and stability levels; role of micro-enterprises in the economy

Key local human rights, labour and gender issues: Child labour, gender attitudes, marginalised groups

Micro-enterprise demographics: Age, gender, location (rural, urban)

Micro-enterprise aspirations: Opportunity or necessity, growth

Micro-enterprise business operations: # employees (permanent and casual), turnover, level of formality, property ownership

Micro-enterprise market system: Their suppliers, customers, competitors, regulators

TIPS AND TOOLS:

- Micro-enterprise owners may find it difficult to articulate their needs and wants beyond their day-to-day needs. They may also lack awareness of wider market system constraints that impact them. Companies should establish a mutual learning relationship with micro-enterprises to build a shared understanding of needs over time
- Always invest time up front to clarify what insights will be used for, and build insights as you go through responsible trial and error as you may not know all the questions you need to ask at the start
- Consider a dual approach to understanding micro-enterprise needs – a top down analysis of the market system and value chain that micro-enterprises operate in, combined with a bottom up study of specific micro-enterprise needs
- Start with desk-based research as a considerable amount of insight on micro-enterprises is available online. You can also work with organisations that have an existing understanding of the micro-enterprises' needs and are trusted by the communities they operate in, such as civil society organisations
- Ensure the needs of potentially excluded micro-enterprises are considered. For example, in some countries, women may be excluded from discussion and decision making. Therefore, when gathering insights on micro-enterprise needs, you should apply a gender lens to ensure female voices and perspectives are considered
- Research tools can be a valuable way to build a deep understanding of micro-enterprise needs but they can be costly and complex. You may want to consider making use of existing tools, such as Practical Action's Participatory Market Systems Development approach. It provides a process for analysing and bringing stakeholders together to address market system failures, which could be applied by a business. <http://practicalaction.org/transforming-market-systems>



IDENTIFY 'MARKET SYSTEM' ROLES, CAPABILITIES AND INCENTIVES

GUIDING QUESTIONS:

- Which stakeholders play a role in the needs of micro-enterprises and the broader market system they operate in?
- How do these stakeholders interact with micro-enterprises and with each other? Where do these relationships work for mutual benefit, and where are there challenges?
- Are there gaps – stakeholders who could play a role in addressing the needs of micro-enterprises who are not currently engaged?
- What are these stakeholders' priorities and challenges in terms of their relationship with micro-enterprises?
- What value can stakeholders bring to enabling micro-enterprises to thrive, and what are their incentives and disincentives to collaborate? *(See accompanying table with an illustrative view of the value stakeholders can bring to collaboration, and some of the incentives and disincentives that may influence their motivation and ability to engage)*
- Is there an opportunity to align stakeholder incentives to collaborate to better support micro-enterprises and address their needs?
- Is there an opportunity to engage these stakeholders through an existing relationship or through broader networks?
- Are there competing or duplicating initiatives already targeting the micro-enterprises you are seeking to reach? Is this a problem or an opportunity to join forces?

TIPS AND TOOLS:

- Start by considering stakeholders that micro-enterprises themselves identify as key to their market system, and develop a broader view of stakeholders from there
- Prioritise stakeholders who are interested in engaging beyond a purely transactional relationship and who recognise the need for market system collaboration to address micro-enterprise needs
- Look especially for “positive disruptors” – stakeholders who are already innovating to enable micro-enterprises to thrive. In addition to engaging them, try to understand why they are different and how their capabilities and incentives can be replicated in others
- Build on what already exists. Governments may have departments and policies focused on micro-enterprise development. And many civil society organisations have a credible record of working with micro-enterprises, and already play an active role in enabling them to thrive
- Donors also have a broad reach and access to key market system stakeholders across business, civil society and government and convene them to share insights, and drive or potentially lead collaborative efforts. The IDB/MIF's SCALA initiative, which aims to scale the potential of inclusive distribution models and emphasises the importance of market system approaches is an example
- Before engaging a stakeholder, conduct basic due diligence. An online search or informal conversations with trusted networks can often highlight any potential concerns
- As stakeholders are identified and engaged, create a market system map. A variety of stakeholder mapping frameworks are available to use, for example:
 - CSR Initiative/Harvard Kennedy School: “Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems.” http://www.hks.harvard.edu/m-rcbg/CSRI/publications/report_47_inclusive_business.pdf
 - ANDE Entrepreneurial Ecosystem Synthesis Framework: http://www.aspeninstitute.org/sites/default/files/content/docs/pubs/FINAL%20Ecosystem%20Toolkit%20Draft_print%20version.pdf
 - M4P Operational Guide: https://beamexchange.org/uploads/filer_public/9e/47/9e477a7c-8865-4ae6-8424-845cdd84c961/m4pguide_full.pdf

Stakeholder capabilities, incentives and disincentives

	THE VALUE THEY CAN BRING TO COLLABORATION	THEIR INCENTIVES TO COLLABORATE	THEIR CONCERNS ABOUT COLLABORATION
MICRO-ENTERPRISES	• Direct insight on micro-enterprise needs • Insight on market system stakeholders that micro-enterprises engage with	• Increased and more predictable incomes • Greater social mobility and empowerment	• Limited ability to scale their business • Procurement requirements and standards • Additional costs and need for ‘formality’
COMPANIES	• Access to large volumes of micro-enterprises in their value chains • Commercial solutions to address the needs of micro-enterprises • Market power and scale • Financial resources • Business expertise	• Sharing costs • Increasing value chain efficiencies • Improving transparency and traceability • Mitigating business and reputational risk • Greater impact	• Increasing complexity and less control • Difficult to demonstrate return on investment • Dilution of reputational benefits • Competitor concerns
CIVIL SOCIETY ORGANISATIONS	• Deep technical and local knowledge of micro-enterprise needs • Trusted relationships with micro-enterprises and the communities they operate in • Act as a relatively neutral facilitator of collaboration between stakeholders	• Opportunity to achieve greater impact • Broadening expertise on commercial solutions to societal challenges • Opportunity to secure funding • Influencing behavior of companies • Increased operating efficiencies	• Increased complexity and less control • Lack of expertise and available resources as scope of support and input required widens
GOVERNMENTS	• A supportive regulatory and policy environment • Provision of enabling infrastructure • Convening and awareness-raising power • Co-funding to support micro-enterprise development	• Delivery of national development goals • More efficient use of public money • Attracting additional investment • Driving private sector solutions to societal challenges	• Increased complexity and less control • Sensitivities around perceptions of partnering with companies
DONORS AND DEVELOPMENT BANKS	• Co-funding to support micro enterprise development • Convening power to mobilise collaborative action • Facilitation of knowledge and best practice sharing	• Sharing costs • The potential for more sustained and greater impact	• Increased complexity and less control • Sensitivities around perceptions of partnering with companies • Ability of partner organisations to meet measurement and evaluation requirements



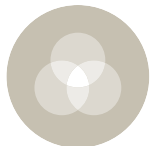
ESTABLISH THE VALUE PROPOSITION

GUIDING QUESTIONS:

- How do (and/or how could) micro-enterprises support your commercial objectives and business operations in the short and long-term?
- Do your existing commercial objectives support or conflict with the objectives and aspirations of the micro-enterprises you are seeking to engage?
- By supporting micro-enterprises, what is the commercial opportunity and what are the opportunities to create social impact?
- What are the potential business risks of working with micro-enterprises and how can they be mitigated? For example, price, quality, reliability?
- Do you need to build the capacity of your commercial functions to work with micro-enterprises?
- What kind and level of return on investment and business results do you need to aim for, and by when?
- What level of investment is required to support micro-enterprises? Where will internal investment come from? What internal resources can you leverage – including social investment resources?

TIPS AND TOOLS:

- Consider the commercial opportunity in two ways – how supporting micro-enterprises in your value chain can support existing business strategy and / or how it can stimulate new business models
- Initially focus on supporting micro-enterprises in the value chains that offer the greatest scope for success. You can then expand and tailor your approach to more challenging value chains
- Rather than starting an entirely new initiative, consider how existing corporate social investment or philanthropic programmes can act as a bridge to engage commercial teams around a longer-term supply or sales opportunity
- Explore how procurement and/or distribution requirements may need to be made more flexible (e.g. highlight the trade-offs between pricing and long-term supplier sustainability) to encourage purchasing from or selling to micro-enterprises
- If micro-enterprises are several steps removed from your company, consider engaging the suppliers and distributors that have/could develop commercial relationships with micro-enterprises. This approach allows a company greater levels of indirect influence on the commercial value and social impact it can have through its value chain, and increases value chain transparency
- Update codes of conduct for business partners such as suppliers to reflect the approach required to support micro-enterprises, for instance on gender visibility, terms of trade
- Prioritise the breaking down of silos between commercial and corporate functions by forming cross-functional teams and sharing accountability between functions to develop the value proposition
- Initiatives that are dependent on a single person can easily derail during times of change. Develop a broad range of advocates within your organisation for the value proposition
- The League of Intrapreneurs toolkit includes tips and tools for employees in large companies looking to strengthen the business case for profitable business ideas that have a social impact, which can also be applied to supporting micro-enterprises. <http://www.leagueofintrapreneurs.com/toolkits>



COORDINATE EFFECTIVELY

GUIDING QUESTIONS:

- Based on their individual priorities and challenges, can stakeholders articulate a shared vision and set of principles to guide the collaboration?
- How will you collectively achieve this vision – what are the specific objectives, strategy, programme of interventions and activities? Can you articulate a clearly defined theory of change?²³
- Which stakeholder, if any, is best placed to lead the collaboration? What role will other stakeholders play to support them?
- Are the objectives embedded in each stakeholders' organisation and do they have senior leadership support?
- Are there existing or hidden conflicts that might jeopardise achieving the vision and objectives, and how can they be mitigated?
- How much will the initiative cost, and what level of financial investment and other resources will each stakeholder contribute?
- What type of written agreement is required to formalise the collaboration?
- What governance model for the collaboration will be put in place?

TIPS AND TOOLS:

- Take time to understand what each partner is aiming to achieve. Understand individual goals as well as shared goals, and invest time in relationship-building up front
- Put it in writing. Once relevant partners are aligned and willing to collaborate, consider what formal agreements are needed. A range of written agreements may be used ranging from informal to legally binding, for example, letters of understanding, memoranda of understanding, and contracts
- Collaborations across multiple stakeholders can be complex. It is critical to ensure roles and responsibilities are defined, decision-making authority is clear and there is a governance model in place. The Partnering Initiative has developed a range of tools to help organisations consider how to do this. <http://thepartneringinitiative.org/tpi-tools/>
- Do not underestimate the time required to effectively manage collaboration between stakeholders. Adequate time and resource provision needs to be made to undertake this role
- Ensure senior leaders continue to stay visible and supportive as the collaboration develops. This helps maintain commitment and momentum, and helps avoid delays and complications in the implementation stage
- When managing stakeholder relationships keep in mind that organisations use different terminology, have different cultures, and have different accountability structures. For example, there may be cultural differences between stakeholders or differences in how each defines and expresses value
- When directly engaging micro-enterprise groups, including those comprising women, ensure appropriate gender balance amongst company and civil society representatives
- Plan time for discussion on whether the collaboration is working. This should not be about monitoring progress of the initiative, but frank discussions (possibly facilitated by a third party) about the quality of relationships
- Civil society organisations can be well placed to act as trusted intermediaries that create a 'safe environment' for market system stakeholders to collaborate, including commercial competitors. They can also encourage other civil society organisations to aggregate their efforts on initiatives they have underway to support micro-enterprise development



MEASURE IMPACT

GUIDING QUESTIONS:

- How will the intended commercial and social impacts be measured? What Key Performance Indicators (KPIs) will be set to measure success?
- What will be measured quantitatively (i.e. with a metric) and what will need to be measured qualitatively (i.e. showing behaviour change)?
- What types of measurement approaches will decision-makers find credible?
- How do measurement needs differ across different stakeholders? For example, what information do stakeholders need and what decisions will they be using this information to make?
- How regularly do KPIs need to be measured?
- How will the results be evaluated and used to make decisions?
- What do the results tell stakeholders about the effectiveness of the initiative? What is working and what is not? And have you encountered new or unforeseen opportunities or issues?

TIPS AND TOOLS:

- Avoid reporting for the sake of it. Data is only valuable if the right data is collected and it used to help inform insights on the success of an activity and how it can be improved
- Set KPIs that distinguish between deliverables, outcomes and impacts – *see Setting your own KPIs below*
- There is no solution that will create significant impact quickly. Adjust your expectations to set longer term KPIs and to achieve results
- Establishing baseline data and finding partners to gather and assess evidence of impact can be a challenge. More emphasis needs to be placed on testing different measurement approaches and identifying what works in different contexts
- Different stakeholders will have different timing and format requirements for reporting that need to be considered. This applies within a company (commercial, financial and sustainability teams) and for broader market system stakeholders (government, donors, civil society organisations)
- In unpredictable fragile market environments, establish an on-going dynamic measurement approach that identifies issues as they arise to enable greater scope for course correction
- Your organisation may already have impact measurement models that can be used. If not, consider partnering with local universities or measurement specialists, or access tools available online such as:
 - World Business Council for Sustainable Development (WBCSD) guide to impact measurement: <http://www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=15357&NoSearchContextKey=true>
 - Donor Committee for Enterprise Development (DCED) Standard for Results Measurement: <http://www.enterprise-development.org/page/measuring-and-reporting-results>

SETTING YOUR OWN KPIs

Example of a commonly used structure to measure impact:

INPUT: WHAT IT TAKES TO DO ACTIVITIES	ACTIVITY: WHAT THE INTERVENTION IS	OUTPUT: THE DIRECT RESULTS OF ACTIVITIES	OUTCOME: THE CHANGE THAT OCCURRED	IMPACT: THE LONG-TERM IMPACT
E.G.:	E.G.:	E.G.:	E.G.:	E.G.:
• \$ invested • \$ value of employee time	• # of micro enterprises participating in business training • # training events held	• # of micro enterprises completing business skills training • % increase in company product sales through trained micro enterprises	• % increase in micro-enterprise incomes • # of jobs created • % increase in product portfolio	• % participants still in business after 5 years • % improvement in customer loyalty

METHODOLOGY

This guide is based on a growing body of experience amongst companies and their partners in civil society, the donor community, and government. It was developed via a multi-stakeholder process in which many organisations contributed practical insights via dialogues, interviews, internal documents, and review of various drafts of this document – see acknowledgements.

An extensive literature review was conducted, and the guide builds on existing knowledge and tools on micro-enterprise and market systems, largely from the development community. This includes past research and analysis on how to support micro-enterprises sustainably and at scale by SABMiller, CARE International, Business Fights Poverty, and the CSR Initiative at the Harvard Kennedy School. A selected list of sources consulted can be found on page 33.

Finally, CARE International conducted focus groups with micro-entrepreneurs to illustrate the demand for context-specific solutions that respond to their real needs, as opposed to what “the experts” think their needs are – the kinds of solutions this guide is designed to help users design and implement successfully.

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4. These challenges are documented in vast literatures on smallholder farming and micro-enterprise. Sources reviewed for this publication are listed in the References section.

5. International Labour Organization (ILO). 2009. "ILO Sustainable Enterprise Programme, Micro, Small and Medium-Sized Enterprises and the Global Economic Crisis Impacts and Policy Responses." Page 7. The International Finance Corporation's 2013 Jobs Study states that the informal sector, comprised of very small, unregistered businesses, employs 48% of the labor force and contributes 37% of GDP (page 10). IFC and McKinsey and Company's "Two Trillion and Counting" states that formal micro, small and medium enterprises contribute 45% of employment and 33% of GDP.

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23. "Theory of Change is essentially a description of how and why a desired change is expected to happen in a particular context. It is focused in particular on mapping out or "filling in" what has been described as the "missing middle" between what a program or change initiative does (its activities or interventions) and how these lead to desired goals being achieved. It does this by first identifying the desired long-term goals and then works back from these to identify all the conditions (outcomes) that must be in place (and how these relate to one another causally) for the goals to occur." Source: Centre for Theory of Change.

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