



Strengthening the Ecosystem for Micro-enterprises in Value Chains

Dialogue Summary, 1st April 2016 (Draft)

Should business be engaging in systems change or focusing on the core business?

For businesses supporting micro-enterprises in their value chains, helping to tackle wider systemic constraints is challenging given results can be uncertain and take a long time to materialise. Investments beyond the core business can also be hard to tie back to a specific business case and be difficult to measure and demonstrate results. An alternative point of view suggests that companies can have a greater positive impact on micro-enterprises by instead focusing their energies and resources on strengthening the core business model and investing in the value chain.

Many micro-enterprises see business as a route out of poverty

It was suggested that many very poor micro-enterprises see “being in business” as an opportunity to move beyond extreme poverty rather than simply because there is no alternative for them. In Bangladesh, BRAC’s social innovation approach ‘targeting the ultra-poor’ develops basic entrepreneurship for those living on less than 70p per day, who are predominantly women, putting them on an upward trajectory out of extreme poverty. Since its launch in 2002, the approach has graduated over 1.6 million families in Bangladesh and been replicated by BRAC and others across Africa, South Asia and Latin America.

Ecosystem-based approaches are relatively well developed

Appreciation of the need to tackle micro-enterprise constraints at a systemic level is already well understood in the development community. For example, BRAC has undertaken significant work to develop the dairy sector in Bangladesh. BRAC dairy not only secures fair prices for its rural dairy farmers, but has also expanded to offer cattle development and technical training, vaccination, feed cultivation facilities and other services. Through its 101 chilling centres, BRAC dairy collects milk from more than 50,000 registered farmers and sells them nationwide through the Aarong dairy brand. In collaboration with CARE, milk collection points and micro-franchises selling animal care products have also been established. Developing the dairy system in Bangladesh illustrates the complexity of supporting a wide range of different micro-enterprises with different needs, including women farmers, milk micro-distributors and animal input suppliers.

Three ways to see business as an engine of systems change

It was suggested that business can be an engine of systems change in three ways: By simply thinking about the business and its business environment / value chain as “the system” and driving change through business strategy and investments; by developing game changing innovations that transform the way a sector operates: eg M-PESA, or through pre-competitive and cross sectoral collaboration: eg World Cocoa Foundation.

Undertake robust analysis of needs

The need to undertake a robust analysis of micro-enterprise needs was emphasised. This should extend beyond talking to micro-enterprises about their needs to an objective analysis, ideally working with expert intermediaries who understand the broader context. Often a micro or small



business will say that they need investment and finance, but in reality what they really need to start with is business training and mentoring support to get the business model right.

The need to take a “bottom up” approach to understanding micro-enterprise needs was also emphasised. In the area of financial inclusion for example, many banks find it hard to innovate with financial services because they take a “top down” “one size fits all” view of the market and do not fully understand the specific needs of the customer. Greater emphasis should be placed on working at the grass-roots level with an intermediary organisation, which has a deep understanding of the target segment’s needs and how to meet them.

The need for greater data disaggregation

The breadth and complexity of the micro-enterprise segment makes it challenging and costly to build up a more detailed understanding of specific needs. More effort needs to be made to disaggregate and share data, requiring greater collaboration between businesses (for example telecoms companies and financial institutions) and between businesses and development partners.

Key role of intermediaries and the need to focus on incentives and capability building

Given the highly fragmented nature of micro-enterprises, the key role of aggregator / intermediary organisations was emphasised to help companies address the key challenge of achieving quality standards at a commercially viable scale. Given their direct relationship with micro-enterprises, intermediaries are often best placed to provide direct support. Greater emphasis needs to be placed on providing the right incentives and building capabilities of intermediaries to take action.

The need to consider broader societal constraints

It is important for organisations providing direct support to micro-enterprises to also consider wider societal constraints impacting micro-enterprises, for example gender discrimination and land rights, which ultimately limit overall progress in empowering micro-enterprises. This requires a willingness for businesses to better understand the social and cultural context of target micro-enterprises and to use their influence to encourage change.

Better understanding incentives

More needs to be done to better understand the incentive mechanisms for different sectors and organisations to invest in and support micro-enterprises. Incentives change over time and need to be reviewed periodically. Efforts should be made to pool these insights.

Encouraging governments to focus more resources on micro-enterprises

Large companies and donors should use their influence with national governments to build greater appreciation of the importance of micro-enterprises and encourage co-ordinated policy responses to support them. For example, the fact that financial inclusion is being increasingly recognised by governments as key to driving economic growth has encouraged regulators to make changes to know your customer requirements to enable local populations to make greater use of mobile money innovations. Policy responses need to better co-ordinated to ensure government action addresses full spectrum of constraints. Businesses and development organisations can support government policy making, for example, actively inputting in to standards setting for vocational training. Businesses should emphasise the building of long-term relationships with government representatives and departments.



Measurement best practice

Measuring impact on micro-enterprises remains challenging. DCED emphasises the need for organisations to think through the logic of their work supporting micro-enterprises, to develop a results chain to map activities with expected outcomes and to align indicators with these outcomes. DCED has developed the [“DCED Standard for Results Measurement”](#) which summarises a best practice process for results measurement and is available for use.

Three levels of business engagement to strengthen micro-enterprise ecosystems

In summary, three approaches for companies to engage in ecosystem strengthening were identified: bilateral action by companies with a strong emphasis on aligning internal stakeholders and taking action by changing operational processes and models to include micro-enterprises; supporting collaboration directly focused around improving the functioning of the value chain; and engagement in the wider enabling environment to address broader systemic challenges. Ecosystem strengthening is not just about scaling structures to support micro-enterprises but also their underlying competitiveness and access to the technology and solutions micro-enterprises need to succeed in large quantities.