



CLOSING THE GAP BETWEEN THE RURAL POOR AND THE MARKET

Approaches and skills for competitive rural enterprises



© Heiko Bamman, FAO officer (AGSF) - Organic nursery shed, Papua New Guinea.

Background

The approaches recorded in this brief form part of a review of over fifty cases led by local organizations to facilitate market orientated livelihoods' paths for rural poor communities.

The cases or “mini-projects” took place under ongoing programmes and projects or catalyzed activities for larger projects. They created awareness on market-led enterprise development as a strategy for poverty reduction and better livelihoods and ultimately demonstrated the value of supporting action-learning that is in synergy with ongoing rural development activities and that capitalizes on local competence.

The average cost for each mini-project was \$14,000. Stakeholders came from a diversity of livelihoods in Africa, Asia and Latin America, including small-scale farmers, fisherfolk, cottage processors, traders, HIV effected groups; indigenous communities; and forest dependent villagers.

Technical assistance was sourced nationally, as much as possible, and all activities were continually supported from FAO, with direct technical supervision provided when required.

The structure and management of the Livelihoods Diversification and Enterprise Development (LDED) sub-programme¹, allowed for cross-country exchange of lessons and approaches, in addition to contributing to FAO's learning on rural enterprise development.

¹ Sub-programme of the Livelihoods Support Programme

Introduction

Without the right skills rural people are unable to take advantage of the opportunities the market offers and will continue to be excluded from the benefits of liberalization as customer demands and external competition intensify.

Local service providers and NGOs are trying to address these issues by strengthening poor people's skills in enterprise development so that they can better adapt to the market-dominated environment. Skills in areas such as, business planning, marketing and finance can help small-holders and entrepreneurs find solutions to market-related problems; manage farm or enterprise operations better; compete more effectively; and consider other market opportunities.

This brief discusses approaches adopted by NGOs when carrying out trainings in enterprise development skills for local communities. In all cases, approaches were customized to suit local contexts and the specific needs of different groups. Concepts and theories were also kept basic with practical skills applications and study tours used as much as possible. Examples of customized trainings from Colombia and Pakistan are described in boxes 1 and 2.

Specifically the brief explores good practices and lessons emerging from training rural people in:

- Business planning including skills for group enterprise planning and household planning
- Marketing including skills for diversifying livelihoods options and understanding target markets
- Financial management including skills for recording cash flows and managing finance and risk

BOX 1

The Islamabad-based service provider "Empowerment through creative integration" (ECI) led the testing of a module on Farming as a Business for Farmers Business Schools. After reviewing materials that exist on the topic ECI found that "illiteracy is a reality among small farming communities. The majority will not be able to read the text, so material presented to them requires visualization and illustrations to get the point across."

BOX 2

CORMAPA, a Bogotá-based NGO trained a group from the Wayuu indigenous community of Manaure in skills to strengthen their community-based fish processing enterprise. The women were first introduced to basic concepts of marketing that looked at supply and demand; the "4P's of marketing" (price, place, promotion, packaging) and the 3 C's (consumer, competition, controls). This conceptual overview was followed by visits to the nearest city "...to call on super markets, hotels, specialized shops, schools, hospitals etc. to appraise the competition in terms of price, presentation, quality etc."

Business Planning for Competitive Rural Enterprises

Business planning is consistently rated as a critical differentiator between high and low performing enterprises and is considered a crucial part of any venture old or new. Without planning, the dynamics that impact on the farm or in the enterprise are dealt with by reacting with crisis management or opportunism. The planning process promotes a long-term vision so that activities respond to the purpose of the enterprise rather than to short-term priorities.

The planning process can finish with the development of a business plan, which is essentially the combination of a series of plans linked to marketing, finance, and production that incorporate patterns of activities, cash flows, dates, deadlines and assigned responsibilities. The level of detail and parts of a plan depend on its purpose.

In the mini-projects trainings in marketing and finance skills, discussed below respectively, often came before sessions in planning. This reinforced stakeholders' ability to plan in an integrated and market responsive way as trainees were able to address marketing and finance issues in their business plans. An example of this integrated approach adopted by a Farmers Field School in **Kenya** is given in box 3. The objective of the training in planning skills was to enable stakeholders to;-

- develop a long-term strategic vision for their enterprise
- identify strengths and weaknesses in the enterprise
- have a visual tool to manage priorities as operations grow
- communicate a strategic vision to stakeholders

Training in planning, however, can be made more difficult by the fact that rural enterprises have many types of structures, for instance, cottage industry activities that are operated from the home, farm activities that are tied to household activities or group enterprises made up of different members of the community.

Stakeholders can also be involved in a number of different income generating activities and enterprises at the same time. The below provides examples of how training in planning can help people differentiate their activities and plan their enterprises more systematically.

BOX 3

The below describes the topics covered on group enterprises to support the collective enterprises operating out of the Mathare district, Kenya.

Dynamics of collective enterprises

- Qualities of a good group
- How to sustain a group
- Benefits of working as a group
- Communication skills

Group dynamics and governance

- The role of other group members in sustaining group leadership
- Decision making structures in a group enterprise
- Elements of group empowerment and good leadership

Marketing in a collective business environment

- Product development
- Distribution strategies
- Promotion strategies
- Pricing strategies
- Record keeping

Planning skills for the household

Many small farms and income generating activities are run from the home and have the dual-purpose of feeding the household and generating income. This can make it difficult for people to distinguish between planning for the household and planning for the business.

Women farmers in the highlands of **Nepal**, supported by the local NGO, Sustainable Partners in Development, received capacity building to improve the commercialization of their products which they depend on for both consumption and income. Trainers were careful to take into consideration the dualistic nature of the enterprise, providing participants with practical tools and tips that enabled them to separate household needs and activities from those of the business.

Similarly, the local NGO, Women in Business Development (WBDI) is working with 21 **Samoan** farmers on an import substitution model for organically certified vegetables. The group involves a mix of farmers that grow vegetables for consumption and those who sell vegetables regularly for an income either at the local market or on stalls outside their homes. Given the dual farm-household dynamic, the training was designed to suit this livelihood pattern by introducing into the curriculum tools such as budgeting for the family and the business, helping trainees to differentiate between the two.

Planning skills for group enterprises

Planning for group enterprises also presents a number of challenges and issues that need to be taken into account. Mini-projects for instance in **El Salvador, Ethiopia, Kenya** and **Sierra Leone**, involved stakeholders working with group enterprises, presenting the lead trainers with a series of additional considerations for planning, for instance, group dynamics, roles, responsibilities, and sharing of costs and profits within the enterprise.

In **Kenya**, the local NGO Groots is working with HIV affected groups based in the Mathare slums. A substantial focus was placed on the group management issue as it was acknowledged that in the past the group had tried to start collective enterprises but failed due to poor management and planning skills. To address this, trainers went through discussions in open plenary with the participants, looking at the different stages in group enterprise development and how the skills and experiences from individual income generating activities contributed to the group activity. Box 3 shows topics specifically aimed at strengthening group enterprises covering, dynamics of collective enterprises, group governance and marketing in a collective business environment.

BOX 4

In Vietnam, the Research Institute for Aquaculture works with coastal communities to support livelihoods diversification in aquatic resource management. Exercises supported the communities' plan for the increase in trade in aquaculture products. After trainees were presented with the results from livelihoods and marketing analysis they undertook trainings in production methods and financial skills. The information from these sessions was subsequently incorporated into production plans which estimated inputs costs and identified seasonal activities to be undertaken for aquaculture production.

BOX 5

LDED Mini-project Papua New Guinea

Table showing simple enterprise development plans developed by group

Production Plan	Marketing Plan	Budget	Income
Develop a cropping plan The size of the land What and when to plan	How much to produce on a weekly basis	How much it will cost to start the farm	Expected Income from selling to RWDI
Activities involved such as clearing, digging, buying seeds etc.	Where to sell	Transport	Sell to other venues, eg. road side sales
Where to get seeds	Collecting point	Equipment	
How and where to nurture young seedlings, how many to plant	What packing materials to use	Labour	
Who to assist with work (labour)	Who to assist in moving vegetable to road site	Packing	
Tools/equipment needed		Seeds	

Table showing markets based in Mt. Hagen

Types of markets in WHP	Advantages	Disadvantages
Local or road side markets	No costs involved Safety is guaranteed	Sells less or only small quantities Competitions with other farmers
Provincial markets eg. the Mt. Hagen Town markets	Sells fast if short supply Earn good income Access to more buyers	Pay for the gates and public transport Losses if supply is high as well extra costs for helper Most public vehicles give preferences to passengers then to moving goods
Institutions such as the hotels and schools	Buys vegetables on an ad-hoc basis	There is a lot of nepotism and wantok system in place at every level The buying price is not always good

BOX 6

Sierra Leone: A session to identify and select feasible IGAs started with a brain storming to solicit participants' knowledge on IGAs suitable for people with disability listed below

Table (a)

- Retailing Trade rice, sugar, flour, onions, salt, batteries, food seasoning, tin food.
- Market garden – peppers, potatoes and garden plants.
- Agro-processing – cassava products, benni-seed, hot pepper, kenda.
- Buying and selling palm oil
- Buying and selling palm wine
- Rice milling – buying milling and selling and providing milling services to the communities
- Straw mat production and marketing
- Savings and Credit scheme – use members savings to give loans among themselves and to non-members and charge interest.

Table (b): criteria developed by participants to help select the most suitable IGAs for people with disabilities

Selecting a Business – factors to take into consideration:

- resources needed – land, labour, material
- location – nearness to market and/ or raw material (if a production activity)
- demand – market for the selected IGA (goods or services)
- customers – purchasing power – low, medium or high
- availability of raw materials
- seasonal activity or year round
- quality based on purchasing power of customers/ consumers
- security
- price – can the would be customers buy
- competition
- challenges
- transportation
- storage/ warehousing.

Marketing for Competitive Rural Enterprises

Capacity to understand and respond to markets was cited by local service providers as a serious challenge for small-holders trying to improve their livelihoods by linking to markets. Front-line organizations considered strengthening marketing skills as a primary concern if poor producers were expected to firstly identify profitable markets and secondly respond to them competitively.

The mini-projects under the LDED programme designed trainings in marketing skills that advocated a market-led perspective, meaning that any production, income generation or enterprise promoted responded to a market gap or area of growth. This type of perspective shifts rural livelihoods away from focussing on increasing production and subsistence farming so that people are more likely to produce and benefit from markets that exist.

The example of the mini-project from **Papua New Guinea** (box 5) describes how training sessions in marketing skills strengthened people's ability to appraise their target market for organic vegetables. These market appraisals included field trips to local buyers to discuss customer and standard requirements for organic production. The objective of the training in marketing skills in this and other mini-projects was to enable stakeholders to:-

- identify promising income opportunities
- understand market requirements of potential and existing markets
- reduce uncertainties and manage the risk associated with expanding or entering a market
- plan production activities in accordance with market demands

As discussed below, building these types of basic but effective skills means that rural people can (a) be more aware of what the market has to offer and are therefore in a better position to diversify their income base and (b) understand the target market so that they are more confident about what, how and when to produce.

Skills for diversifying income and livelihoods options

Rural poor people are compelled as part of their livelihoods strategies to diversify their income sources to cope with vulnerability and poverty. As such, diversification is generally accepted as a good practice in rural development and once people are confident that a market exists they are more willing to invest in diversification and product development. Marketing skills enable poor people to identify alternative and more lucrative livelihoods options.

In a mini-project in **Sierra Leone** stakeholders came together to identify income generating activities specifically for the physically disabled and war wounded. The group firstly developed market surveys to understand the types of potentially profitable Interest Group Associations (IGAs), and secondly, using participatory tools stakeholders developed a list of criteria to filter the IGAs suitable for people with disabilities. Box 6 shows the criteria applied and a list of IGAs identified as feasible options for the disabled stakeholders.

Another mini-project example is in the Tigray province of **Ethiopia** under the auspices of an ongoing FAO and Belgian Survival Fund programme on food security which worked on proposals for diversification activities with local NGOs. The *Association of the Blind* works with local stakeholders on fortified flour products for blind women, and the *Derbhan Association for Orphan and Vulnerable Children* supports a cow barn enterprise.

The groups are promoting these IGAs as they contribute to both nutrition and generate income for the local population, but before investing in diversification they also want to be certain that a market exists for the products.

To understand the target market better, local consultants carried out market appraisals of the products and presented the results to the stakeholders, who then fed the relevant information into the enterprises' planning processes. Box 7 shows the marketing plan adopted by the *Derbhan Association for Orphan and Vulnerable Children* group for the cow barn enterprise. This plan formed part of the business plan prepared by the NGOs for submission to donors to support the livelihoods diversification project.

As explored below, in addition to facilitating the identification of alternative or additional market opportunities, marketing skills also strengthen producers' capacity to understand how to supply and compete more effectively in their target market.

Skills for understanding the target market

Understanding market requirements means that small producers are in a better position to know what and when to produce for a target market. They also have a clearer idea about the type of resources and skills they need in order to deliver an appropriate product. Probably, however, the most useful aspect of marketing skills is that understanding a market means that producers' uncertainties are reduced allowing them to manage the associated risk of being exposed to the market.

In **Papua New Guinea**, the local NGO, Rural Women's Development Initiative (RWDI), organized a workshop for a group of women farmers in marketing skills to support income diversification. The group identified the national horticulture and organic markets, currently served by imports, as a potential opportunity. From the session, farmers wanted to improve their understanding of the target market in the hope that local buyers would eventually switch to local suppliers.

In addition to class-room sessions in basic marketing concepts, the women were also presented with an overview of the market by local professionals and went on study tours to large vegetable businesses to discuss face-to-face market requirements with the buyers. The women carried out a three step appraisal to identify the challenges and opportunities for different market places and also developed a marketing strategy as shown earlier in Box 5.

Similarly, WBDI in Samoa organized market-oriented skills building to facilitate farmers' understanding of the the organic² vegetable market which had been identified as a complementary income generation option to bridge an income gap while stakeholders waited for returns from their cash diversification strategy. As noted in the mini-project report “{s}ome of these farmers have sizable vegetable gardens, and are selling their produce at the markets, but others have just increased the number of the same vegetables, which they intercrop with their usual root crops. WIBDI is encouraging these farmers to diversify more into the less common vegetables, and to plant more vegetables to supplement their income.”

2 The farmers are already certified by the National Association for Sustainable Agriculture of Australia (NASAA) to grow organic cash crops such as vanilla and cocoa as well as coconuts as their mainstay.

BOX 7

Marketing plan adopted by the Derbhan Association for Orphan and Vulnerable Children group for a cow barn enterprises

Potential Customers

- Individual customers
- Catering institutions
- Government /private institutions (colleges/universities, Hospitals)
- Milk producers' co-operatives
- Dairy Development Enterprises/other Dairy products processing enterprises

Target Areas

- DebreBerhan and its environs
- Areas along the routes to Addis Ababa
- Addis Ababa

Sales promotion Strategy

- Flexibility in selling milk and milk products according to the customer need in terms of size.
 - Producing and selling quality product
 - Free of hygienic problem while handling milk and milk products
 - Regular assessment of customers/clients satisfaction
 - Advertising and promotion through brochure, leaflets and bill boards

Pricing Strategy

To start off with, mark-up-pricing will be used for the basic reason that determining costs is much more easily done than estimating demand, which is the other pricing strategy..

Financial Management for Competitive Rural Enterprises

Business advisors claim that managing finance causes most problems for small businesses. Given that allocating financial resources and managing cash is the most difficult part of administering a business, this challenge is compounded for people with poor education.

Training expectations cited by participants ranked as a top priority learning how to keep books, budget and manage money. This was featured in the LDED mini-projects that focussed on market-oriented skills building. The objective of training in financial management was to enable trainees to:

- judge the profitability of operations and the cost of labour
- identify resources required
- improve transparency and credit worthiness
- understand market requirements

As discussed below, in addition to the above competencies, financial management skills also enabled stakeholders to (a) record cash flows and (b) manage finance and risk.

Skills for recording cash flows

Understanding cash flow, that is, income coming in and expenditures flowing out, of the farm, enterprise or household is a critical skill for any type of venture. Cash flow exercises enabled trainees to understand a variety of trends about activities and target markets, even without learning to do financial calculations.

The trainers used simple formats and tools to demonstrate how people can keep track of cash transactions. Examples of these tools used in Lao are shown in box 8. Cash flow is a simple concept and with clear tables and calculations trainees, including people with literacy problems, were taught to apply these skills. Records of cash-flows also help trainees monitor:

- losses and profits
- fluctuations in sales, prices, demand and supply
- mistakes or thefts
- when a loan is needed
- profitability of different products
- comparisons with competitors

BOX 8

Example of Cash Book from Lao, for Community Based Enterprise on Finance and Accounting Manual

Date	Detail	Reference No	Receipt	Paid out	Balance
	Beginning balance				A
01.1.2007	Receive money from project	001	7,000,000		7,000,000
01.1.2007	Receive member fees	002	150,000		7,150,000
02.1.2007	Deposit money at the bank	003		6,500,000	650,000
10.1.2007	Purchase office supplies	004		120,000	530,000
11.1.2007	Withdraw money from the Bank	005	4,000,000		4,530,000
12.1.2007	Buy the goods for sales	006		4,100,000	430,000
12.1.2007	Travel expenses	007		30,000	400,000
20.1.2007	Sold the goods	008	5,000,000		5,400,000
24.1.2007	By the raw material	009		2,500,000	2,900,000
26.1.2007	Labour cost	010			2,400,000

BOX 9

LAO, PDR

Calculate financial projections for the enterprise

During the formulation of the business plan, participants calculated financial projections for the enterprise including sale estimation, fix assets, depreciation, variable cost, and labor costs; total investment capital needed; profit and lost and return on investment (ROI). The main constraint faced during this exercise was the participant's education as it took time for them to understand the calculations.

Skills for managing finance and risk

Trainees were also introduced to financial calculations to support forecasting and risk management. Reports from the activities indicated that stakeholders had most difficulty with this area of the programme. "It was the first time for participants to calculate the return on investment and most found this difficult." (SNV, Lao).

The exercises, in Lao for example, covered basic financial calculations to help people calculate profit and loss, return on investment, break even point, running capital, fixed capital, and depreciation. Box 9, as noted from the mini-project report, describes the challenges villagers met when working out calculations.

In **Nepal** trainers also noted that it was difficult for them to translate financial calculations into simple language that local women could relate to. In **Pakistan** the local NGO, tried to overcome this issue by translating existing calculations into visual formats that the farmers could use. Box 10 provides an example of the illustrations used to convey financial management issues to the trainees.

THEMATIC brief



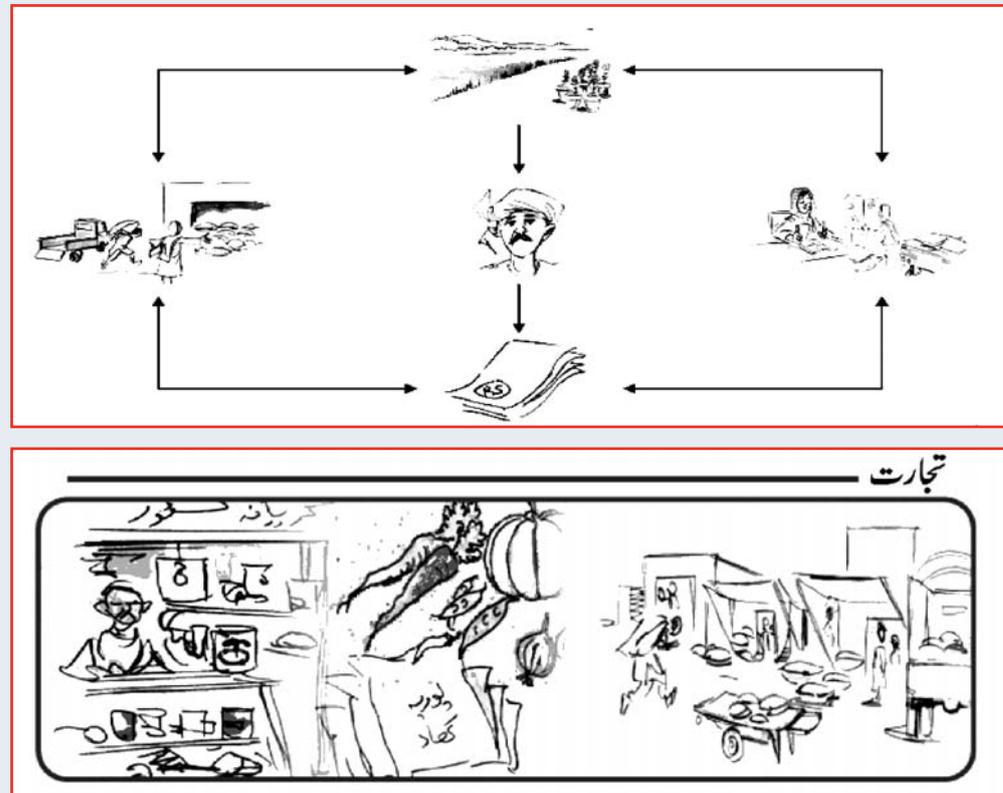
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FAO's Livelihood
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BOX 10

Figure from EDI report

Examples of some of the visuals used by the trainers to explain concepts that were translated into visual and verbal communication models to suit the villagers levels of literacy and numeracy.



Conclusion

This brief synthesizes approaches from 20 cases that aimed to close the gap between the rural poor and the market. The front-line organizations adopting these approaches found that:

- despite the common constraints faced by rural people, equipped with the appropriate skills they can be empowered to find solutions to market problems
- enterprise development skills help rural areas adapt to the market as it promotes diversification and local competitiveness
- without local capacity and skills, communities will remain marginalized from market opportunities

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