



---

Second Economy Strategy  
Workshop  
30 September – 1 October

**LINKING SMALL AND MARGINALISED PRODUCERS TO  
EXTERNAL MARKETS:  
NEW IDEAS FOR DEMAND-SIDE MEASURES  
USING VALUE CHAIN ANALYSIS**

by  
Sandy Lowitt

# Purpose of Study

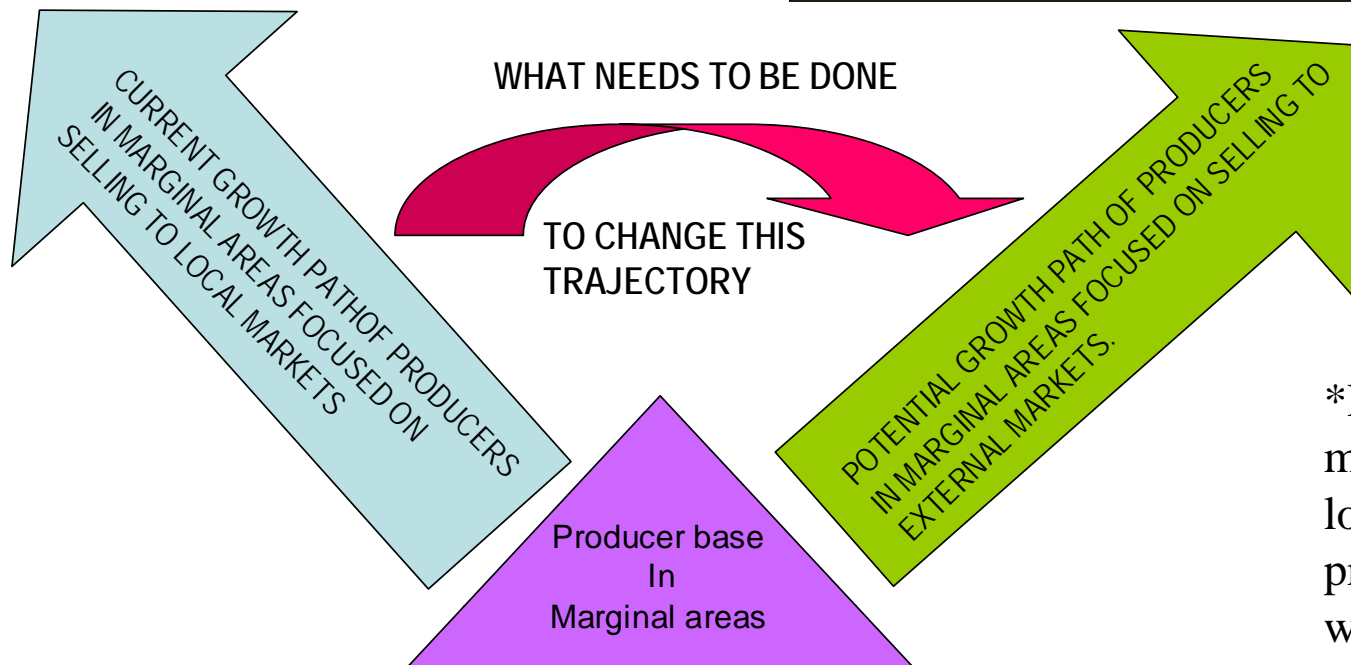
---

- Consider strategic options available to:
  - Reduce poverty in marginalized areas, by
  - Improving the linkages between small producers and external markets, using
  - A demand side, value chain approach
- Produce a framework and strategic options
- Strategic options should:
  - If possible lead to system wide change, or
  - In the alternative -be highly scalable
  - Think outside the box and catalyse debate

# Market Interface Problem

- Continued thin markets
- Continued low incomes
- Continued low returns
- Limited opportunities for income  
And employment growth
- Continued instability of income

- Access to dynamic markets  
With high disposable income
- Ability to generate higher incomes
- Ability to generate increased returns
- Improved ability to generate income  
And employment
- Ability to increase security of income



\*External market = any mainstream market: e.g. local hotel, provincial processor, national wholesaler, urban lead firm, export market

# Using Value Chain Analysis

## ADVANTAGES

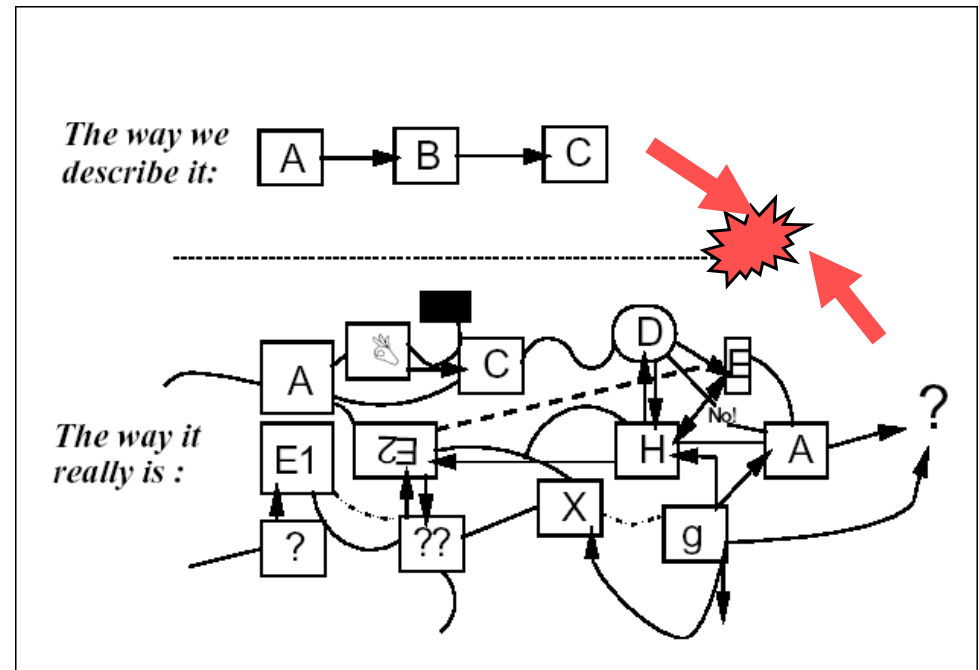
1. Deal with issues of governance and power
2. Deals with distribution of economic rents
3. Deals with upgrading
4. Provides a demand side perspective

## CHAINS MUST BE PULLED TO MOVE

Fundamental shift from traditional supply side approaches

## CHALLENGES

### 1. Sectorally focused, empirically driven

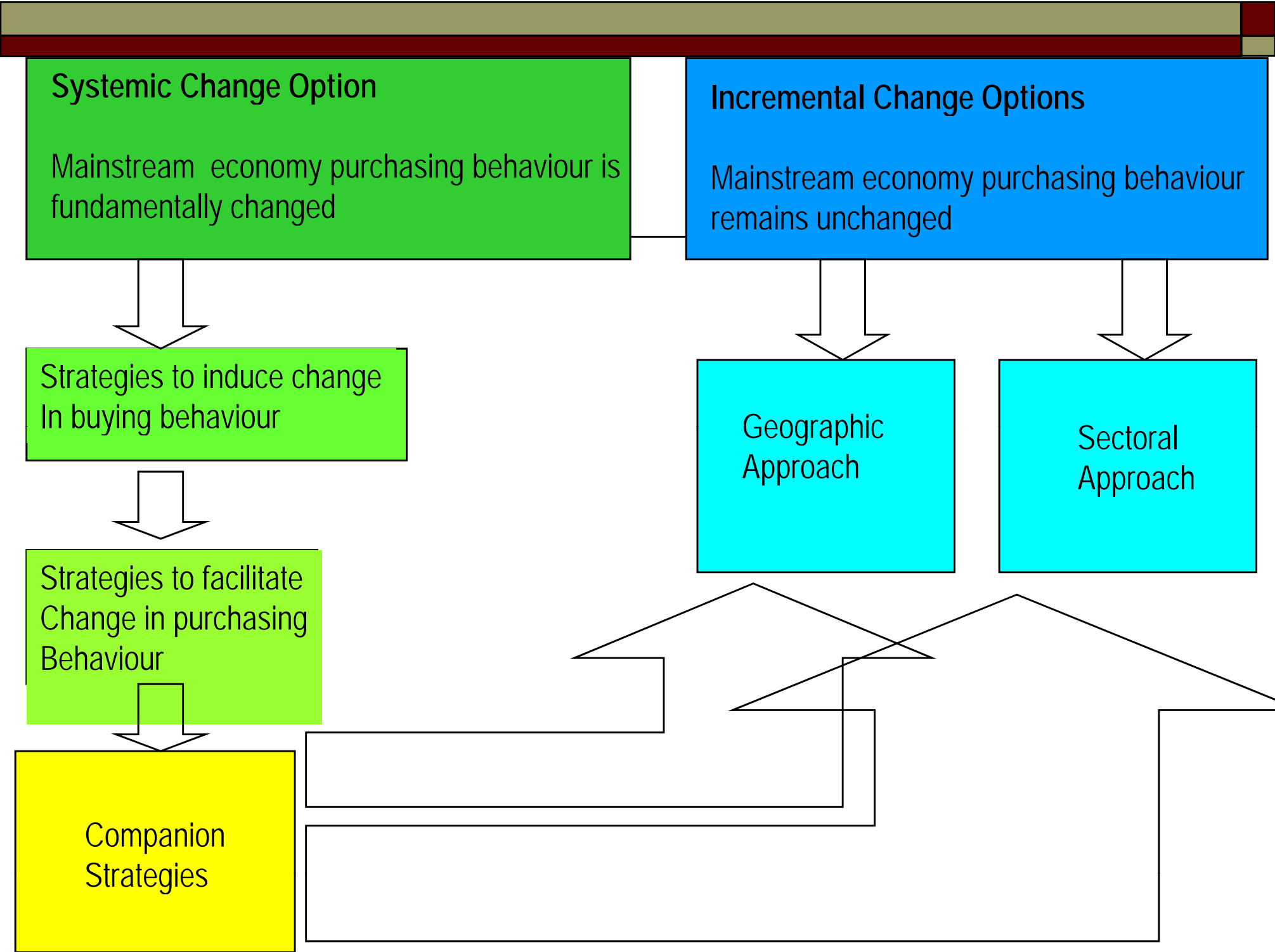


### 2. Huge chasm between theory and reality

Created middle ground analysis based on cross cutting issues

# Cross Cutting Value Chain Issues

1	The rise of large lead firms as a dominant characteristic of demand in the 21 <sup>st</sup> century.
2	Concentration at lead firm level has cascaded down value chains to increasing concentration at all points along a value chain
3	Standards have become increasingly important (product, social and environmental).
4	Profits and returns are gravitating towards points of concentration along a value chain
5	Profits and returns are gravitating towards logistics, branding, marketing and design activities and away from production inputs.
6	Lead firms increasingly only want to deal with large competent suppliers.
7	Contract based linkages (captive network) provide better returns and greater opportunities for upgrading for small producers than spot market linkages (arms length network)
8	Contractual linkages are dependant upon : trust, relationship building and an understanding of rights and obligations .
9	Linkage programmes must address financing. Internal financing is preferable to external financing. Financing individuals is preferable to financing group formations.
10	Horizontal aggregation (grouping) of small producer activities is necessary to overcome high transaction costs, but group formations fail more often than they succeed.
11	Small producers are unlikely to be able to negotiate contracts on favourable terms by themselves
12	Externally catalysed linkage programmes are not scalable.
13	Traditional commodity products face decreasing terms of trade and lead to immiserising growth. Most small producers produce traditional commodities
14	The lower the level of critical success factors necessary to win a contract the lower the income share distributed to producers
15	Product segmentation is crucial



# Systemic change option

---

- Adaptation of BB-BEE Scorecard philosophy and mechanism (preferential procurement)
- Current BB-BEE scorecard PP works to change buying behaviour in value chains with BEE sensitive clients ( e.g. gov and IT industry – lucrative tenders are the inducement)
- Most small producers will sell into retail sector. This sector & its clients are NOT BEE sensitive thus limited preferential procurement and predisposed to buy from large suppliers=  
INFERTILE ENVIRONMENT FOR LINKAGE  
PROGRAMME
- Must create incentive to change buying behaviour of lead firms and their suppliers. Use a tax rebate

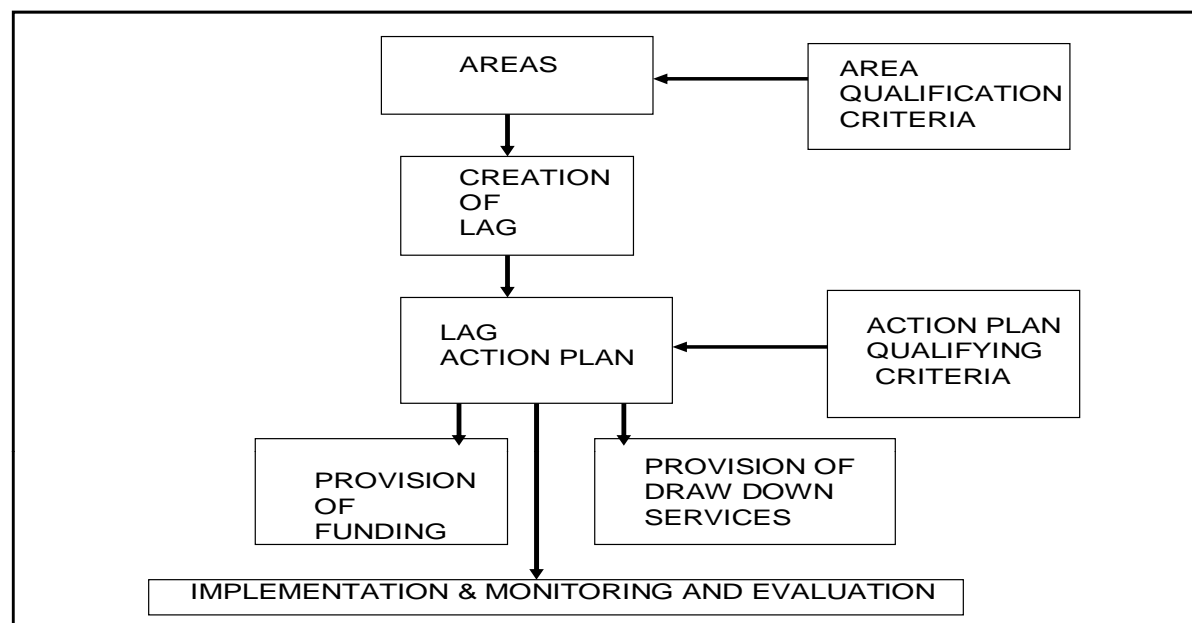
# Inducing and supporting change in buying behaviour

---

- ❑ Lead firms earn points from sourcing products from qualifying small producers which is attached to an incremental tax benefit
- ❑ Will lead to all suppliers along the value chain to increase sourcing from small suppliers and increase competition for small producer output (power shift)
- ❑ BUT supply that meets firms CSF's will likely not exist...so.....
- ❑ Incentive needs to be large enough to cover necessary enterprise development (upgrading of small producers)
- ❑ Link enterprise development and preferential procurement so government only 'pays' for success
- ❑ Strategy lets lead firms and value chain participants in the private sector do all the upgrading ; formalizing; aggregation
- ❑ Gov only directly involved in areas where private sector has no core competency

# Incremental change Strategy – LEADER System

- Less ambitious, accepts mainstream buying preferences as given
- Focuses on a mechanism which will generate large numbers of substantially sized linkage initiatives
- Participants in a given area propose linkage initiatives. Initiatives compete for rounds of government funding.
- Bottom up approach which can lead to incremental change



# Concluding Points

---

- Devil is in the detail – hope covered many of these but certainly not all
- Even if strategic options aren't picked up – framework is useful in thinking about old problem in new ways
- BIG lessons:
  - Must internalize catalysation i.e.: private sector role is crucial, gov should only facilitate
  - Linking small producers to mainstream value chains is necessary but NOT sufficient to reduce poverty for small producers
    - Product selection is crucial
    - Market based system – small producers will face risks
  - Will require heaps of government commitment, will and funding to achieve but is absolutely doable