



# Market Linkage as an approach to promote productivity and market access of Micro Small Enterprises

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## I. Introduction

Enhancing the livelihoods of poor and near poor households is critical to Indonesia's poverty reduction efforts. In the first instance, the government is expanding the reach of social protection and basic services to reduce vulnerabilities among the poor and protect them against potential shocks. Meanwhile, they have set sustainable livelihoods as the "graduation step" to increase incomes and pull poor households out of poverty (adopted from graduation model of BRAC, an INGO based in Bangladesh).

**Key definition:** *Micro and Small Enterprises are productive entities owned by an individual or an individual business unit, with assets of less than IDR 500,000,000 and an annual turnover of less than IDR 2,500,000,000. KOMPAK's work is mostly focused on micro enterprises which have assets of less than IDR 50,000,000 and an annual turnover of less than IDR 300,000,000.*

In rural Indonesia, most of the poor and near poor are self-employed in either agriculture or Micro and Small Enterprises (MSEs), or both. However, MSEs generally fail to grow and generate sufficient income. Therefore, improving the productivity of MSEs is critical to improving the livelihoods of the poor.

As a Facility that supports the Government of Indonesia's poverty reduction agenda, KOMPAK focuses on increasing productivity of MSEs as a core area of work in its Local Economic Development (LED) portfolio. KOMPAK's End-of-Facility Outcome 3 is that: "the poor and vulnerable benefit from increased opportunities for economic development". More specifically, for the past two years, KOMPAK together with the government and a network of start-ups has been piloting an innovative approach to enhance MSEs ability to market and sell their products and services. This "Market Linkages" approach involves local governments, start-ups, and beneficiaries – in this case, MSEs – in assessing market opportunities together and then designing viable business options to respond.

## II. What Problems are We Trying to Address?

Innovative solutions are needed to expand MSEs' (especially those run by the poor or employing the poor) access to markets. MSEs report issues with access to credit, skills development, marketing and networking. The existing government support services (which are focused on the provision of loans, equipment and training) only partially address these issues and in ways that are focused on building skills first, rather than starting by understanding the needs of the market. Studies show high demand for support services, but the majority of MSEs have never accessed them, citing lack of information, lack of relevance or lack of time.

Through the Market Linkages approach, KOMPAK seeks to address these problems:

- MSEs tend to focus on the skills and resources of individual entrepreneurs or communities that are already available, rather than consumer needs and market demands.
- MSEs do not have the networks to access more profitable markets outside of their immediate locations.
- MSEs do not know how to meet qualifications and standards of buyers, as well as how to maintain sustainable (business) relationship with buyer.
- MSEs span across diverse sectors and have diverse needs, which creates challenges for the government to provide targeted high-quality support services.

## III. Market Linkages: What and Why?

Market Linkages is a human-centered design approach that brings the market actors together to examine a problem – in this case, the market demand for a given commodity – and create innovative solutions to meet this need. Through Market Linkages, KOMPAK seeks to

demonstrate an effective approach to shift the behaviour and operations of targeted MSEs toward greater productivity and market connection, which is expected to lead to increased income. Priority is given to MSEs that are run by the poor and by women. KOMPAK also aims to model how government, especially local government, can engage with the private sector to deliver more tailored support services to MSEs.

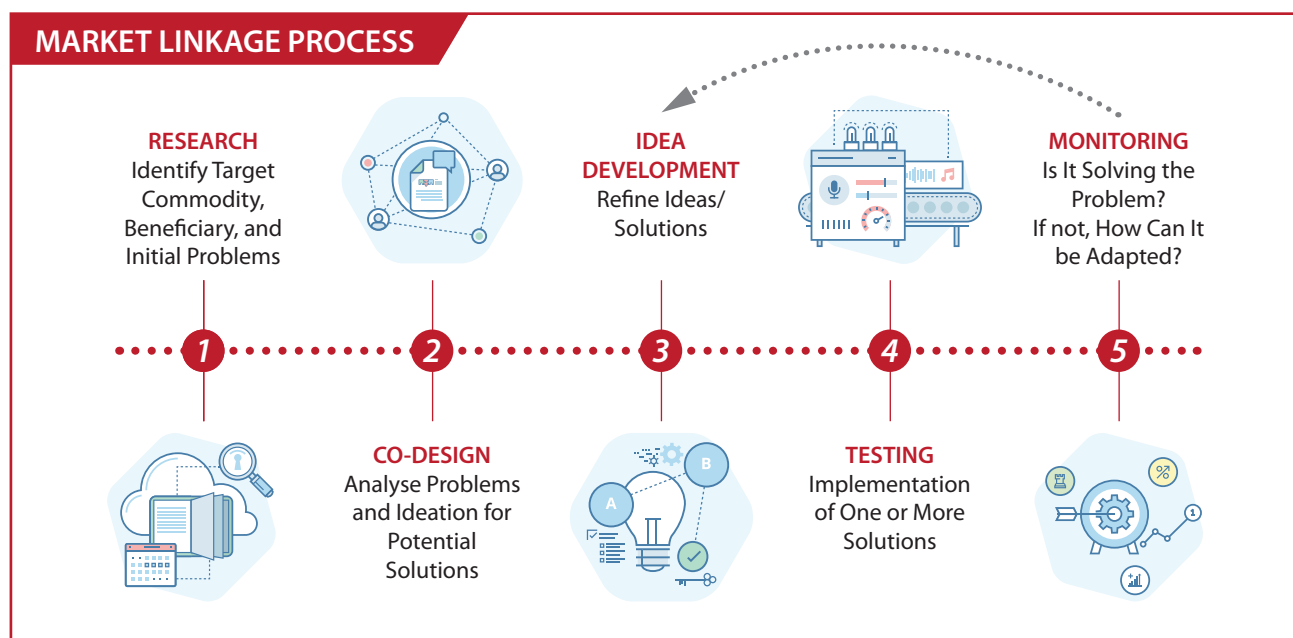
### KOMPAK Success in 2022

On local economic development, KOMPAK envisions that by 2022 an increased number of MSEs, especially those owned by or employing the poor and vulnerable, have increased their productivity and market access.

- Nationally, market linkages approach is adopted as part of the government's poverty reduction strategy and policy.
- In the selected pilot districts, districts will have the regulatory framework, institutional set-up, SOPs, and operational platforms to implement the market linkages approach in a systematic and sustainable way.

The main steps of the Market Linkages are:

- 1. Initial research to identify priority commodities** that have market potential and key stakeholders to be involved in the next step.
- 2. A design sprint to analyse problems and identify potential solutions** related to each commodity. This is a collaborative exercise that involves local MSEs, private sector entities, and local government including villages.
- 3. Prototyping one or more of the viable solutions** identified through the design sprint. This step involves a private company, start-up or social enterprise identified by KOMPAK and the local government that has the relevant business expertise for the selected commodity.
- 4. Testing, iteration and adaptation of the prototypes** in at least two villages, supported by monitoring and evaluation of outcomes.
- 5. Development of a viable plan to scale up and sustain the prototypes** that have proven to be effective.



The desired outcome of this process is that the MSEs have a clear and financially viable plan to expand their business and market access, so it will contribute to their increased income. This entails partnerships between the MSEs and private sector and various financing options, including private sector investments and government budget such as district budget and village funds. Hence, active involvement of local government, multiple market actors, and MSEs throughout the process is critical to achieving this outcome.

The Market Linkages pilot is part of KOMPAK's broader support to the government to promote local economic development. Bappenas has already included Market Linkages as a poverty reduction strategy in the draft Medium-Term National Development Plan (RPJMN) for 2020-2024. At the same time, Bappenas with KOMPAK's support is now exploring platforms (online and off-line) that can enable access of MSEs to a range of support services, including links to start-ups and social enterprises, market information, and financing, through partnership with the private sector. Such a platform would provide the means to institutionalize the brokering and facilitating role that KOMPAK and Bappenas have played.

## IV. Who is Involved?

KOMPAK's role in the pilot has been largely to design and facilitate the Market Linkages process in the pilot locations together with local government and relevant start-ups. KOMPAK acts as the initial match-maker but does not take on the financial or reputational risks for the ventures that result from the process. KOMPAK also helps the local government to create the enabling environment, so that they can replicate the process to create innovative solutions specific to their needs. For example, in Pacitan district in East Java, the District Office for Cooperatives is using Market Linkages with their own resources to provide more customized assistance to cooperatives and micro-enterprises.

The key stakeholders in Market Linkages are:

- **Beneficiaries:** Micro enterprise owners, livelihood groups, women and youth groups, village-owned enterprises (BUMDesa), and cooperatives with focus on specific commodities.



- **Market actors:** Start-ups, social enterprises, business entities who are potential buyers and partners for the beneficiaries.
- **Local government:** Relevant institution (Dinas, Bappeda or village government) that acts as convenor and driver of the process.
- **National government:** Bappenas and others who are championing market linkages as part of the government's policy for poverty reduction and local economic development.
- **Facilitators:** KOMPAK and facilitators with experience in human-centered design.

## V. How is the Progress and Results Thus Far?

KOMPAK has conducted the Market Linkages pilots together with Bappenas in seven districts. Progress varies across districts. The stage of piloting, commodities, level of engagement with private sector and local government are different for each location.

### SUCCESS STORY FROM THE PILOT IN PACITAN

[https://youtu.be/bemnCwxWP\\_k](https://youtu.be/bemnCwxWP_k)



In June 2017, The Mokaf Bogati Women's Group was producing 5Kgs of flour per month. They were unable to sell.

Now the Group has rebranded, focusing on a high-end gluten free market, producing over 225Kgs per month. They also sell cakes that are made from the flour.

*"We're really happy that we joined this activity, because through this process we were able to map out a solution for our business that we had previously been unable to solve."*

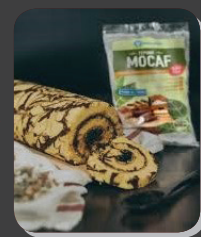
Ibu Nining, Head of Mocaf Bogati Women's Group, Pacitan



Old Packaging



New Branding and Packaging



Mocaf Bogati and Cakes