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Business Development Services - Developing business model for rural microenterprises

Comparative case study of rural microenterprises in Madagascar

Study conducted in regions of Itasy and Boeny, Madagascar

Author: Sandra Paulina Segin

M.Sc. Development Practice (MDP) candidate

Trinity College Dublin/UCD

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Figure 1

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ABSTRACT

This research discusses business models for rural micro- and small enterprises (MSE) and business development services (BDS) that proved to facilitate growth and increase income of MSEs. The research was conducted in regions Itasy and Boeny in Madagascar, in sectors of pink peppercorn, pineapple, common bean, cashew nuts, corn and black eye bean. Through set of interviews with MSEs at different development levels, characteristics of the successful ones were dissected, in order to use as guideline for less-developed MSEs to follow; discussed are best practices, access to markets, usage of training and approaches to crop cultivation. Moreover, as a study done for International Fund for Agriculture Development (IFAD), it summarizes the BDS which help the MSEs in their progress and help to generate more revenue, so that both IFAD and other BDS NGOs can draw on the experience of the study to improve the BDS as well as identify which are most important for the smallholders.

Keywords: smallholder agriculture, business development services, subsistence farming, cash crops, rural development, rural micro- and small enterprises (MSEs)

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ABBREVIATIONS

AR – Malagasy Ariary (currency)

BDS – Business Development Services

GSV – Grenier Commun Villageois, microcredit loan secured by harvested crop (mainly rice), stored by the bank

MSE – Micro- and Small Enterprises

IFAD – International Fund for Agriculture Development

MO – Market Operators

OP/MO – Organizations of Producers/Market Operators pairings

PROSPERER – Programme de soutien aux pôles de microentreprises Rurales et aux économies régionales [eng. Support Programme for the Rural Microenterprise Poles and Regional Economies]

INTRODUCTION

Madagascar, world's 4th largest island, lies on the Indian Ocean, separated from the African continent by the Canal of Mozambique. One of world's poorest countries, Madagascar has not reached any of the Millennium Development Goals (World Bank, 2016). Of a population of almost 25 million, 66% living in rural areas – over 70% work in the agricultural sector. Poor farmers often opt for subsistence farming, having little to no income, leaving them vulnerable to shocks. The proportion of rural population is diminishing, due to urban migration (World Bank Indicators). Malagasy population doubled between 1975 and 2000 (Fiche Programme PROSPERER) – with such trend, the pressure for efficient and productive agriculture to satisfy the demand is considerable.

Malagasy agriculture suffers from variety of problems, including climate change and its repercussions (cyclones, flooding); the technological stagnation and low inputs, little to no R&D, low productivity and efficiency, to name a few. The rural microenterprises constitute 96% of the legally formed enterprises and employ 55% of the total population (Fiche Programme PROSPERER, p.2) – by far the biggest proportion of rural entities are microenterprises, constituting of less than 10 people (Kimando, Sakwa, 2012:150), mostly family members.

International Fund for Agriculture Development (IFAD), a UN agency, supports farmers around the world, focusing on improving their livelihoods, facilitating development and increase their income. IFAD is funding projects in Madagascar since 1979, one of them being Program PROSPERER [Support Programme for the Rural Microenterprise Poles and Regional Economies] established in 2007. Recognizing that *institutions and organizations are pivotal to reducing poverty and fostering development* (Pritchard, 2014:19), PROSPERER has positioned itself in the Malagasy agricultural sector as one of the major partners for frames, serving a growing number of beneficiaries, well over 50,000. The Program focuses on increasing incomes of the rural poor in 9 most densely populated regions and one of its objectives is structuration of traditional clusters into more formal groups, which facilitates them easier access to markets and empowers communities.

CONTEXT

This study was conducted in regions of Itasy and Boeny, Madagascar, conducted during the months of May, June and July 2016, interviewing rural microenterprises, beneficiaries of PROSPERER.

The aim of the study is to identify a progressive business model for the micro- and small enterprises. Of the three categories – weak, potential and developed (for table of categorization, see Annex) – by far the biggest number of MSEs remain in the weak level of development, with little upwards mobility.

The result of this study are two conclusions: one is regarding the business model utilized by the more advanced rural MSEs. Despite the fact that there can be no single business model for all rural microenterprises (Zott, Amit, 2007:1), as their specifics differ and require different approaches, we were able to identify practices that distinguished the more advanced producers from the weakly developed ones, and believe that some of the practices, if replicated, can facilitate growth and increased revenues across industries. Successful, innovate rural business models across Africa involve a number of stakeholders, connected in a value chain – major private sector representatives, public agencies dealing with research and rural development, producers and various customers (Ochieng, 2007:149), and we found this to be true for Malagasy rural entrepreneurs as well.

The second part focuses on suggestions for BDS that should feed into facilitating the progression of MSEs. While the business model is mostly directed at enterprise-level characteristics (the commendable practices of producers that, according to the data gathered, allowed them to develop), the BDS solutions focus on what the program PROSPERER should focus on in order to facilitate the development of rural MSEs.

Among the many ways of boosting productivity and working towards generating greater incomes, plenty approaches concentrate on the value chain and establishing of value chain that empowers the farmer. BDS are among the crucial factors that contribute to improvement of rural enterprises and ensure its sustainability. The aim of BDS is to improve the ability of an enterprise to compete, as well as improve their access to markets (Kimando, Sakwa, 2012:151).

Market competition often makes it difficult for rural MSE to become profitable (Kimando, Sakwa, 2012:150). Rich customer base is one of the prerequisites for development, as local markets usually offer low margins. The traditional constraints of poor infrastructure, unreliable electricity and telecommunications and dispersed customer base – which are present across many rural areas in developing world (Kapur et al., 2014), – pose obstacles to both producers and market operators.

BDS's goal is not solely improving the production but also developing the skills of the farmers – ability to manage the business, to build business relations, to market their product, to develop their technical knowledge on the crop cultivation etc. It is also facilitation of accessing microcredit and advice on investments, as well as supervising the formal contracts between producers and MOs.

Working towards success and sustainability within MSEs is a complex task it takes time, dedication and perseverance on both parts (Best et al., 2015:1) – the farmers and the development programs. Moreover, in countries like Madagascar, where a considerable number of farmers live on subsistence level, the task is ever more challenging – switching production to cash crops invites the danger of hunger or falling into debt, in case of crop failure. That makes many farmers in Madagascar especially vulnerable, and their development requires careful consideration about their abilities and security, as well as market demand.



Figure 2

METHODOLOGY

In this research, situation in rural micro-enterprises of various levels of development (weak, potential and developed) are cross examined. The rural microenterprises included in this research are all beneficiaries of PROSPERER. The study was conducted in region of Itasy and Boeny, and the subjects were producers of pineapple, common bean and pink peppercorn in Itasy, and black eye, corn and cashew nuts in Boeny.

The pink peppercorn producers were interviewed in Ankadinondry Sakay, Bongolava and Alatsinainikely, Itasy; pineapple producers were interviewed in Ambohitrambo and Soamahamanina, Itasy; common bean producers were interviewed in Soavinandriana and Ampary, Itasy; cashew nuts producers were interviewed in Mangapaika, Boeny; corn producers were interviewed in Betsako and Antanandava, Boeny; black eye bean producers were interviewed in Anjajia, Manierinieri and Ambato Boeny, Boeny.

All producers are members of cooperatives, centred on the crop which headlines the section; however, this does not mean that it is their main activity.

This qualitative research employed individual as well as group interviews. All case studies are analysed in blocks, according to industry. The conclusion summarizes similarities among advanced producers across industries.

Furthermore, the research employs interviews with the demand side for the products, so called *Market Operators* (MO) – both companies and cooperatives/associations, as well as conversations with PROSPERER team, at both regional and national level.

Worth mentioning is that PROSPERERs activity in Itasy is long established, and the SMEs underwent diagnostics (albeit a while ago, and another one is being planned), hence the enterprises are assigned a level of development (weak, potential or developed); in contrast, the Boeny region, where the program is only active since 2014, technically all SMEs are classified as weak, as they did not undergo diagnostics yet. However, through the interview process we were able to distinguish the more advanced enterprises.

PINK PEPPERCORN (BAIE ROSE)



Figure 2

Pink peppercorn is a booming industry in Madagascar, with demand outrunning supply. Traditionally the crop was cultivated in region of Bongolava, and has been introduced in Itasy as a response to the high demand, hence virtually all MSEs there are in the least developed category. In order to establish what distinguishes the MSE in more advanced stages, we interviewed producers from Ankadinondry Sakay of neighbouring Bongolava region.

	Bongolava Producers	Itasy Producers
Primary Activity	Pink Peppercorn	Rice, Corn, Poultry
Mean Age	45	35
Average size of land cultivated for pink peppercorn	1.45ha	0.6ha
% who invested into production of pink peppercorn	100%	14%
% who took microcredit	40%	14%
Start of activity	2005	2012

Table 1

All producers are members of the cooperative Tsabrose, who acts as market agent and sells it in bulk for export. Before, the producers relied on collectors and had little influence over the price; collectors took only the product they deemed qualified. Since the establishment of the

cooperative, the business has become much more stable – that’s when most investment have started and farmers committed themselves to the production (land extensions, maintenance, labour).

	Price	% of overall production
Grade I	AR 31,000	10%
Grade II	AR 28,000	20%
Grade III	AR 6,000	70%

Table 2

Producers obtained better quality product, as they all produced consistently more of the high quality peppercorns and less of the grade III in the past three years. Training in sorting has enabled the farmers to limit the waste – they used to throw away the product of lowest quality (Grade III), which accounts for 70% of the overall production, even more for the less advanced producers (as historically other collectors rejected the product). The crop is the only cash crop for all surveyed households in Bongolava. All respondents cultivate other crops like manioc, rice, corn, peanuts, but those are for most part destined for consumption.

Type of Enterprise	Bongolava	Itasy
Developed	4.9%	0%
Potential	10.4%	0%
Weak	84.7%	100%

Table 3

Pink peppercorn was introduced in Itasy by the cooperative and the Program, providing training and young plants. The land dedicated to the activity is smaller for the less advanced producers, who as for now rely on incomes from other crops. Their economic situation is worse than their Bongolava counterparts – they farm more for subsistence and have less revenue; that said, the production is just taking off, and they expressed willingness to invest more in production if it proves beneficial after first harvests. The presence of the cooperative, which accepts all corns, will surely help generate revenue – in the beginning, the quality of the product is likely to be low, but it will not be wasted. Persistence and patience is key for success for Itasy producers, and once they see the benefits, it will be easier to promote the crop among others.

From the group leader we learned that there are information dissemination issues – the channels of communication are limited and it is difficult to spread the word about the possibility of pink peppercorn cultivation among other farmers. Such links should be focused on and developed in order to facilitate grassroots initiatives and promote both vertical and horizontal linkages between institutions and organizations (Pritchard, 2014:20). The presence of a more experienced producer in the community was important to the new ones, as they could rely on her experience. The women producers have also stated that the fact that the promotor of the crop was a women, and that in Bongolava pink peppercorn has almost full gender parity among the producers, was a factor that convinced them to take up the production – hence the way a crop is promoted can be targeted at certain groups – like the young or women – and such aspects like who delivers the training can be of huge importance.

This business model, a coordinated supply chain (Ochieng, 2007:149) has proven successful in other industries. Tsabrose (a market operator and cooperative, of which all producers are part), acting not only as collector, but also initiator of the production, is in close contact with the producers, investing in promotion of the crop and offering training for the farmers.

PINEAPPLE

Pineapple, along pink peppercorn, an industry where the demand is secured – apart from being major domestic supplier, Itasy is also providing an ever-growing amount of pineapple to relatively new fruit processing company HAVAMAD, which went from 60T production in 2013 to 2000T in 2015, with second production line just opened and demand constantly growing. A welcome development which allowed the producers to cease being reliant on collectors (who offered lower prices).

	More Developed MSEs	Weak MSEs
Primary Activity	100% Pineapple	87% Pineapple
Mean Age	46	51
Average size of land	6.7ha	3.3ha
% who invested into pineapple	66%	19%
% who took microcredit	33%	21%
Start of activity	1994	1996

Table 4

We saw an interesting dynamic between two communes, commune Ambohitrambo in which all producers interviewed represented weakly developed enterprises and were yet to benefit from any training, and commune Soamahamanina, where the SMEs were in majority trained and farther in their development. The weakly developed Ambohitrambo producers saw 25% of their production rejected by HAVAMAD (due to poor quality/size), forcing them to sell the remainder at 20% value. On the other hand, the Soamahamanina producers sell on average 90-95% of their produce to HAVAMAD, leaving the rest for the small market operators (on their own initiative).

	Ambohitrambo	Soamahamanina
Start of activity	1990	2000
Availed of training	None	Management, Compost, Marketing
Age	56	43

Table 5

The quality and quantity produced rarely changed throughout the decades, remaining stagnant in the Ambohitrambo region for all but one person; only one person invested in their activity

(who was also the only person to receive any training), which for some dated back to the 70's. Soamahamanina producers used compost (on which they, in contrast to the other group, were trained) and manure, and their results attested to improved quality as well as quantity of the produce after the treatment.

The advanced producers who invested in the activity (extension of cultivation, treatment of plants, and usage of compost) obtained both higher yields and better quality – fruits were bigger and sweeter. Those were also farmers who did not see almost any of their product rejected by HAVAMAD, thus they can select the fruit of best quality and sell elsewhere, fetching a price 2-4 times higher than wholesale. Thus developing a quality product would be the first step, after which the producers would have to be trained on accessing different markets and fostering new business relationships.

The private company invested into road reparations, as well as establishment of local collection points, facilitating the transport for farmers who no longer needed to make faraway trips to the local market – the presence of the company along with the facilitations of sale has made a major difference for all surveyed producers. The fact that infrastructure in Ambohitrambo is much worse than the Soamahamanina may also have an impact on the weaker development of industry – while Soamahamanina lies by the main road, the roads in Ambohitrambo are so bad that the trip with a chariot to the collection point – 17km - takes half a day in winter and 2 days in the summer. Before, the producers were reliant on collectors coming into the village and thus dictating prices – as pineapple is also a perishable good, difficult to store due to its size and has a very short life-span, the producers bargaining position is weak.

Pineapple proved to be another important cash crop, being the only source of income for most families. All of them cultivated other crops (like rice, manioc, beans, corn) yet those were mostly kept for consumption; hence, like the pink peppercorn, pineapple was the main source of cash in the household – if it was not the only, then it was the main one, as the sale of rice or manioc often happened only in case of excess.

COMMON BEAN

	More Developed MSEs	Weak MSEs
Primary Activity	33% Bean	92% Bean
Mean Age	47	42
Average size of land	1.5ha	0.95ha
% who invested into bean	66%	53%
% who took microcredit	100%	61%

Table 6

Establishing patterns of development in the bean industry proved somewhat difficult. The MSEs deemed as more advanced (either potential or developed) were in fact collectors turned producers; people who first occupied themselves with wholesale, and then in turn established their bean cultivation. Hence, they all had funds in place from other business that allowed them to cultivate bean themselves (they are all still collectors). No particular business model allowed them to develop from small and inefficient producers – they entered the production at the higher development level. Moreover, none of them identified bean as their primary activity nor the main source of income. Indeed, the main source of income was the bean *collection* and subsequent wholesale, of which their production made only a small part. They have also agreed that it was the income from the collection, not production, which allowed them to invest in the activity (extension of cultivation, general farm improvements).

The more advanced producers pointed to beneficial system of moving the bean cultivation to another areas to secure the soil fertility. The producers saw an improvement of quality as well as quantity when they did not cultivate bean on exclusively one parcel of land but moved around. However, most of weakly developed rural MSEs rent their land, rather than own it, and renting additional land often has preventative costs, as there is little readily available capital.

All of the collectors have taken a GCV loan from CECAM Bank – using rice as guarantee, and all of them expressed unwillingness to take a regular microcredit loan. A fear of not being able to repay the loan - due to the monthly rates which do not take seasonality into account, or possible loss of harvest due to climate changes, was a theme encountered among all producers – bean, pink pepper and pineapple. The GCV, on the other hand, was praised by those who took it for

the exact same aspect – the repayment has already been secured. This form of microfinance requires prior capital (rice), which most of the vulnerable farmers do not have.

The weakly developed producers are investing in the production and borrowing money to expand their activity; some pointed to the expected demand of the company SOAFIARI as reasons for investing in the bean production. Many respondents reported harvests as much as doubling (from 200kg in 2014 to 450kg in 2015, from 250kg in 2014 to 560kg in 2015, from 600kg in 2014 to 1400kg in 2015), which they credit to the training provided, especially the compost. Those interviewed also pointed that management training allowed them for forward planning (keeping seeds for next year, a practice which was not in use before) etc. In fact, the collectors availed of much less training than the producers – the producers invested themselves more in the cultivation.

CASHEW NUT

Cashew nut industry is little different to the others - members of the cooperatives are not primary producers but collectors and transformers. In late 90's, a cashew nuts factory in the area closed down, leaving cashew nuts producers without market. The price per kilo went down from 600AR to 100AR and in effect most producers abandoned the crop. The members of the cooperative, rather than producing the nut, buy it from people in nearby district of Mampikony, who themselves also do not produce the nut but gather it from the wild. In effect, there is very little genuine production of cashew nuts, treated farms etc. However, the collectors see that with satisfactory price and high demand, one cannot rely only on collectors of the nuts growing in the wild, hence all are willing to invest themselves into production, while few cultivate small plots of land since the 90s. The government just granted the cooperative 10ha of land to cashew nuts cultivation and the industry is growing. Since the revival of cashew nut sector, those who occupy themselves with it saw their living standards rise – one respondent bought a rice field, other pointed to having savings when he never had anything set aside before.



Figure 3

With the cashew nuts production taking off and developing, another source of fairly steady revenue has presented the farmers (who can all be classified as vulnerable) with new opportunity, considering the relatively high price of AR15,000/kg through added value. Cashew nuts have to be left in water for 72h, heated, carefully removed from the shell, and then dried. After this process, most of farmers transform the product by grilling and salting it. Some of the producers

have to gather the cashew nuts themselves in the beginning of the season, transform and sell it, in order to obtain cash to buy the collected produce – capital is very scarce.

As of yet there is no formalized demand, and many producers sell the nuts on the side of the road, which does not allow for much forward planning (one does not know if and how much will he bring home at the end of the day). Having a steady demand apart from the passing drivers would allow for more financial stability and security, allowing to invest more (although the government granted the cooperative 10ha for cultivation, there is no capital to start the production).

Hence we can see that there is a possibility of an efficient business model establishment, based on cooperation. The cooperative has received the land, and now it is up to them to cultivate the cashew nut there (which requires prior capital, which can be obtained via microcredit for the cooperative). When the production takes off and the cashew nuts are not only collected, but also cultivated, the revenue of each member will likely rise, and the excess money can be invested into processing tools. When such innovative and sophisticated production is established, the capacity of processing will likely rise, and cashew nut should become a stable cash crop for all members. Of course, the development of the situation remains to be seen, but there is a great potential in this particular situation, whereby a cooperative showed initiative to obtain the land for cultivation (Madagascar has still plenty of land that is arable, but needs input to make it so).

CORN

Corn produced in Madagascar is used mainly as animal feed, both at home and abroad. The Commission of Indian Ocean (CHECK) voiced that the need for corn in Indian Ocean's countries like Mauritius or X is 500T, which is/was mostly imported from India; Madagascar jumped in to fill the void. CORN OUTPUT FIGURES

Only 23% of the producers we interviewed pointed to corn as their main source of income. The low price and low yields caused most farmers to in fact diversify and look for other, more beneficial crops. Corn is easy to cultivate and requires little maintenance and is also less sensitive to climate change, hence farmers cultivate it for the little but steady revenue, but all of the farmers relied on other sources of income – as with black eyes and cashew nuts, they live from harvest of one crop to harvest of another, often playing catch up. The producers were often so vulnerable that they need to sell their rice after harvest (when price is lowest) and they buy for consumption – when price spikes.

Age	37
Primary Activity	Rice, Corn, Manioc, Poultry
Respondents where corn is primary	23%
Start of activity	2004

Table 7

25% of them invested in the activity, but only one case saw land extension – mostly it was maintenance. Only one person took microcredit – all others sold poultry or other agricultural goods to cover for investments as well as day-to-day necessities, when cash ran out. All of our respondents used a collector to sell their product and none of the members of cooperative was a collector themselves – nobody has the capital in place to start such activity.

As mentioned before, the targeting of corn industry by the Program had its reasons in the regional demand, as well as the fact that generally, corn producers are vulnerable and poor, and their inclusion was intended to improve their conditions. However, without a bigger profit margin and formalized demand, few of the interviewed farmers was willing to invest into corn and concentrate on the activity. They derived most of their revenue from black eyes or tomatoes, and

those were the activities that they were willing to invest in. Although black eyes requires a lot more maintenance, the returns are much more appealing.

	Corn	Black Eyes Bean
Price p/kg	AR350-450	AR1500-2500
Average output per ha	500-1000kg	1000-2000kg

Table 8

BLACK EYES BEAN

Black eyes beans are another commodity in high demand in Madagascar, and the region of Boeny is one of its biggest suppliers. The rise in demand and relatively high price – compared to other grains – has seen a spike in the number of farmers who cultivate it.

Other activities of the household	Rice (92%), Corn (92%), poultry (72%), peanuts (28%), manioc (16%)
Destination of other activities	76% sale, 16% sale and consumption, 8% consumption
Mean age	46
Start of activity	2007
Training received	44% management 36% technical crop cultivation 36% marketing 8% entrepreneurship

Table 9

The producers we interviewed had an unusually high proportion of investment - 70% have invested in the activity – be it by microcredit (17%), or reinvesting revenue from sale of other agricultural goods. The respondents rarely invested into other activities, and pointed to the high returns on bean that encourages them to invest (land extensions, compost, and maintenance). The official pairing OP/MO and the formalized demand is a further reason we can expect the MSEs to develop and increase their revenues.

Most have invested revenue from other activities, like sale of rice or poultry, rather than taking microcredit. The production for most is quite recent, with the mean start of production being 2007. Most pointed to picking up production to satisfy demand, and the high price that black bean fetches was pointed as a decisive factor for most. In fact, many of them had been producing mainly corn, manioc and poultry before, and after introducing black eye bean, their income increased. However, we can see that the farmers still rely on many other sources of revenue, like rice and poultry, unable to rely solely on black eye bean as of yet.

As with previous two industries in Boeny, corn and cashew nuts, all the MSEs are classified as weak, as the presence of the Program is quite recent. However, unlike the two other sectors, where all producers were in fact on a similar (weak) level of development, some of the bean producers have been able to progress and significantly increase their revenue. Those who have been producing black eye beans for few years have decided (and after attending marketing training, according to some) to become collectors. Contrary to the business model of the common bean developed MSEs, who were collectors first, the Boeny farmers took up collection as additional revenue generating activity. All of the collectors have been active for less than 2 years, so they still point to production as main revenue source, yet they admit that collection makes a big portion of revenue as well, rising year after year. Unfortunately, becoming a bean collector is neither feasible for all farmers, nor is it a sustainable business model for all farmers.

Interestingly, when interviewing members of the corn cooperative, many of them pointed to black eyes as their main source of revenue – however, as they are not united, nor paired with a MO, in the black eyes industry, the price they got paid by local collector was AR1400-1800/kg, while the members of the bean cooperative sold theirs at AR1800-2500 – suggesting that having a formal demand can, apart from guaranteeing some security in terms of demand, can also be financially more beneficial to the farmers.

DEVELOPED RURAL MSEs MODELS

During the study, we were able to conclude the following characteristics of the more advanced rural MSEs:

The investments into production were much higher (be it reinvesting the revenue or taking out a loan to buy new tools, replace old plants, extension of the terrain of cultivation etc.)

The advanced producers concentrated on one activity: most of them still farmed for consumption, crops like rice or manioc, but the other crop was usually the only cash crop in the enterprise, and all the efforts of improving quality, increasing quantity and commercializing were focused on the crop. In case of weak enterprises, few crops were cultivated for sale as the production of one cash crop did not suffice, many are living from harvest of one crop to harvest of another, not being able to commit themselves fully to one product

Diffusing their markets, not depending on sole MO but travelling around with their product – thus engaging in a more sophisticated value *network* (Fuller et al., 2010:96) than simple value chain. Many of them have been linked to the market by big businesses (like HAVAMAD), which allowed them to increase production and sell competitively, a model seen across the developing world (Best et al., 2015:68)

Sound management of the enterprise – the better-off producers have kept (and knew) records of their financial performance much more often than the worse-off producers

Utilizing the trainings (management: for bean producers keeping the best seeds for next plantations, for bean and pineapple utilizing compost for the production, for cashew nuts – marketing training, learning how to best package and present the product, on management side – on how to calculate the accurate amount to put inside a sachet). The advanced producers also pointed that the marketing training has improved their bargaining position, where they don't simply agree on a price but try to get the better deal for themselves

Some of the more advanced MSEs pointed out that even for them the marketing of their product without external help (as the OP/MO coupling) was difficult, and the security of steady demand allowed them to diversify their customers' base (i.e. they grew after the formal pairing with market operator)

Labour as added value: two of the most expensive products (in per kilo terms) are cashew nuts and pink peppercorn, and they both take most work at producers level, before reaching the market operators. The producers who put in effort in the processing (effective sorting of peppercorns, treatment of cashew nuts to add value) have seen their revenue increase

When rural population gets more disposable income due to their activity, they trade up (Kapur et al., 2014); it could be seen with the advanced producers investing not only in their agricultural activity, but house improvement and sending children to college or university

The grain industry – common bean, black eye bean and corn – have presented a different model. While the Itasy respondents all become producers after they were collectors for considerable time, seeing it as an additional revenue, the collectors in Boeny did the opposite. The most advanced producers with highest revenues became collectors – having initial capital to kick-start the business was crucial. They usually collected from neighbouring villages and sold to a bigger collector – due to high demand, finding a MO, especially in that region – which is black bean, and to some extent corn, hotspot – is not difficult. However, this is of course not a truly viable business model – not all producers can become collectors, nor should they. Below, in the suggested solutions, part ‘empowering cooperatives’ discusses how this business model can develop into a more inclusive approach.

Steady and secure demand was a prerequisite for most of the developed MSEs. Only then could they comfortably concentrate on one crop (best visible in pink peppercorn and pineapple, but also in bean industry) and invest in the production.

The weakly developed enterprises face capacity constraints, where the move away from subsistence farming is too risky. Their access to capital is limited, as vast majority fear not being able to repay the loan and losing their homes and land, the only guarantee they can usually afford.

Suggested facilitating solutions

The below suggested solutions should facilitate farmers development and becoming more advanced, income-generating rural enterprises, moving away from subsistence farming. Some of them are already being implemented by PROSPERER, like the creation of cooperatives; in such instances, the suggestions should be treated as commendations of the actions and can be used as guidelines for other NGOs in similar areas.

Creating Cooperatives

Cooperatives and partnerships between producers and market agents have enabled the people to move away from subsistence farming towards income-generating activities. Due to high, sometimes preventative transportation costs, and relatively small-scale enterprises, even the apt entrepreneurs are not able to sell enough of their product to make a significant difference. Being a part of a cooperative allows farmers to get integrated in the value chain, gain leverage on the demand side and pool resources to improve the sector. Cooperatives also play vital roles in the producers' communities, offering forum to exchange news, experience and advice. Another important upside of cooperatives is that they empower women; where cooperatives – like Tsabrose – act as market agents, women face fewer constraints in access to markets, thus enabling them to succeed in production and commercialization of cash crop. As Beatrice Makwenda said in her AgTalk, *The future belongs to organised farmers*.

Studies have shown that often cash crops are a male domain (Hill, Vigneri, 2011), due to issue with access to markets being more restricted for women than men, women social position and lack of access to capital due to lack of ownership. Yet through cooperatives, who act as market agents - the women do not have to engage in commercialization of the product and do not face the traditional constraints - they oversee the production, hire seasonal workers, and they themselves sell the product. The cooperatives guarantee a steady demand for their produce, allowing them to invest in the production and become an important part in the value chain, as well as solidified their position as a producer and viable part of the community in the meetings of cooperative (many cooperative leaders are indeed women).

Empowering Cooperatives

As cooperatives play more and more important role in value chain, they should solidify and expand their position. For example, all the developed MSEs in grain industry were farmers who were also (or primarily) collectors; empowering cooperatives (along with fostering responsible entrepreneurship) will allow cooperatives themselves to become actors in the trade, and excess revenue can be utilized for a purpose that will serve community's development, like a pavilion for storing the grain, or vehicles for collection. Once the cooperatives are empowered enough to play a significant role in the value chain (and expand it), they will also have more opportunities to investigate their customers base and perhaps look for more beneficial deals. The examples of positive development of businesses and enhancements to human capital through unified efforts across farmers in developing world are numerous (Tiffen, 2002, Pritchard, 2014, Best et al., 2015)

Empowering cooperatives can include facilitating access to credit and reinforcing market linkages. This can be part of strategy when creating the OP/MO pairings. MOs like dealing with cooperatives as the communication is easier, the amount of product higher and overall cooperation is more efficient than when dealing with individual, atomized smallholders. Cooperatives should be aware of their position and take ownership of it; not only use it as leverage for better deals but to establish a firm, responsible and long-lasting communities that have potential to develop its industries, and to realize their full potential they need guidance and advice.

New Crops Introduction

Often we see that farmers, along with the facilitators, focus on finding markets for what is already being produced (Best et al., 2015:1), rather than looking for what it is the market wants and shifting the production. Shifting the production may be difficult at first for the farmer, as the yields are not immediate, and one requires extra work and often capital to start the production. Yet we have seen this happening - introducing crops like pink peppercorn in Itasy is one example. Another is company HAVAMAD introducing passion fruit in their partnering farms (providing tools, young plants and manpower to establish the production). The Program, along with government bodies, should determine where the demand – such lead customer approach (Ochieng, 2007:151) should pre-empt moves from private sector. The farmers should get help to jump-start their production – one may think of it more as an investment, where for each dollar spend on establishing new production, a certain (higher) revenue is guaranteed as the demand

is secured. On the other hand, pumping time and resources into crops simply because the farmers have cultivated them for decades may very well have a low return on investment, if there is no real demand (or if the crop is not a big revenue-generator).

Fostering of responsible entrepreneurship

Many investors have been discouraged in due course of doing business in Madagascar. Company HAVAMAD, who invested in plantations of passion fruit, left to farmers only tending to the plants. Yet farmers refused to water the plants, opting instead to wait for the rain as they traditionally do, which in turn destroyed the crop. Such stories can be multiplied, and while some companies persist and reinvent their business model (shifting more to a partnership with farmers where they would have to invest into the plantation so that a loss of the crop would mean a financial loss to them also), many others become discouraged and cease doing business here.

There are other grievances on private sector's part. For example, Madagascar has a huge potential to be an important player in terms of BIO and premium products (i.e. produced by women cooperatives). Yet to certify product as such, a process has to be followed; in case of a product to be certified BIO, all activities relating to the plant production (treatment, applying of compost etc.) has to be kept in a notebook – this has not been done in 70% of cases. Without a change in mind set and increase in responsibility, the opportunities for MSEs presented by the private sector will be lost.

Trainings design and eligibility

During the interviews, we have uncovered that technical trainings (on particular crop cultivation, phytosanitary or compost) were widely praised and utilised. The issue was rather different in terms of management, entrepreneurial and marketing trainings – either due to not being applicable or farmer's lack of time and willingness.

Trainings have proven to make a major impact on the output, product quality and finance management. To hear that such big proportion of people are not following it makes it feel like a wasted resource. Hence training should be redeveloped with focus on what do beneficiaries consider *not applicable*, and pair with follow-ups. Those who do not follow the guidelines consistently should not be eligible for more training – sometimes a person would be trained in

eight areas, but used only one. Age dynamic is not without merit here – those most likely to adapt managerial and entrepreneurial trainings were those under 40.

Focus on developing cooperation with private sector

Fostering self-reliance and efficiency becomes important when working with private sector. Cooperation with private investors allows for producers to be included in a reliable value chain, and fosters partnership and cooperation. What often stifles the opportunity is that the private actors worry about quality and inability of smallholders to provide the quantity needed to satisfy the demand, or for export (Best et al., 2015:72). We have seen that cooperatives mitigate this problem to some extent, yet there is still question of both building capacity and credibility, and the program should act as an intermediate in establishing such cooperation. In the beginning, it is worthwhile to look at grants to producers to stimulate the initial production – a practice that also solidifies the partnership in private sector's eye (Best et al., 2015:69).

Public-private partnership have been recognized as one of great drivers of development. The Program, in conjunction with Chamber of Commerce, should focus on fostering such partnerships on country-wide scale. PPP can address the gaps in process, where public sector lacks the know-how, R&D funds and funds (Pritchard, 2014:92). We have seen in the development of passion fruit sector by HAVAMAD that this was exactly was delivered, although it was purely private initiative. However, with the involvement of public sector, such forms of cooperation can become important on much bigger scale – a practice worth looking into would be mapping of capacities in order to map out which areas of the country are capable of producing a particular good in demand (which does not have to be produced there yet, but can be relatively easy developed) and work with private stakeholders to develop the sectors. Private actors, upon realizing that such programs will benefit them, are likely to part take (see Best et al., 2015:71).

Private actors can also help farmers in commercializing previously discarded produce, turning previous waste into profit (pink peppercorn example), and can like producers to customers in developed world who are willing to pay extra for premium products (produced by women cooperatives, organic etc.).

Microcredit Improvements

That rural entrepreneurs are afraid of credit is not an exclusively Malagasy problem (Pritchard, 2014:95). Over the course of the research we heard concerns voiced about microcredit that were virtually the same across all sectors. The ones mentioned the most were:

- Lack of flexibility which would take harvesting times into account; most farmers have relatively big cash incomes when they sell the harvest, and monthly repayments simply do not fit into the financial cycle of rural households
- Fear of not being able to repay the loan; many farmers have seen their crops slashed by disease or consequences of climate change. Had they taken a loan, they said, they would not be able to repay it. Had they used their homes as guarantee, they would have lost it.
- High interest loans

The developed enterprises have in majority invested in the production, be in by reinvesting the revenue or microcredit. However, many of them have opted for GSV, where the loan is secured with crop, in most cases rice – even those more developed and better-off farmers often said that they would not consider microcredit. If those better-off are not willing to take a loan, it is next to impossible to think that the poorer ones will take one. More flexible conditions – like, for example, the GRAMEEN model of community secured loans, or collective loans to cooperatives – should be encouraged.

An example can be taken from China, where IFAD partners with local rural community cooperatives, and shifts the focus from solely being concerned with the ability to repay the loans to poverty reduction (Pritchard, 2014:95), serving not only individuals but also townships and village enterprises. With the growing number of cooperatives, and their increasing significance in the value chains, it would be worthwhile to look into possibilities of access to capital for such actors. The scheme also allowed in later stages the rural poor access credit and, perhaps equally importantly, change perception about it and understand that it can act as an important tool for improving their livelihoods.

Climate Change Adaptation

Climate change (as well as insects and bacteria) were among the most often mentioned problems across every industry. Many farmers have seen their yields greatly diminishing and do not know how to mitigate the situation. As those changes are happening for all producers, PROSPERER

should invest into R&D and work in cooperation with other NGOs and international institutions in order to find ways in which the agriculture can adapt – or possibly mitigate – some of the climate change consequences. Otherwise, the farmers' vulnerability will increase.

Product Transformation

Most producers are happy to sell their product in bulk to MOs, as it often saves them time and effort. Others diversify the MOs and increase the revenue. However, some farmers see their product rejected by the MOs, and with no knowledge how to transform and commercialize the product, it becomes effectively waste – especially in case of perishable goods. Product transformation should be proposed in industries where this would be a viable solution (turning pineapple into dried fruit or comfiture, cashew nuts into butter or oil).

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ANNEX

Table : Classification of different types of Rural Microenterprises (MER)

	MER naissantes (weak)	MER à potentiel (with potential)	MER en croissance (developed)
Capitalisation	Weak	More advanced but the initial capitalization is often weak	High
Education - (entrepreneur)	Weak	Weak	Secondary Level
Knowledge and experience	Relatively weak, apart from traditional knowledge (like artisan work)	More advanced, traditional knowledge or previous experience	Advanced, acquired via training as well as previous experience. Trained in management
Gender	Strong participation of women	Mix	Weaker participation of women
Ability to compete	Markets with little specializations and little barriers for entry		Often occupying specific, niche industries
Seasonality	Seasonal, dependent on various cycles	Less affected by seasonality, active throughout the year at different levels	Less affected by seasonality, active throughout the year at different levels
Contribution to the household income	Complementary	Often primary	Primary
Primary or secondary activity	Secondary	Primary	Primary
Labour	Labour done by family members	Labour mostly done by the family with occasional employees	Mainly employed labourers
Benefits and investments	Little revenue, household spending	If sufficient, it is reinvested into the activity, if not, household spending	Reinvested into the activity
Access to credit	Access to credit is limited as the enterprises themselves are informal	Limited access to credit. Possibilité d'usure.	If the enterprise is formal, it has access to credit
Potential development	Limited in terms of employment creation but possibility of increasing sales, productivity, and revenues. Development is limited by the demand, availability of the	Potential od development is weak but the number of activities if larger, it offers	Strong potential of development, high number of employed full time labour.

	primary materials and physical resources (labour, storing facilities)	possibilities to employ a permanent labour force.	
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