

> Formalisation and the MSD approach: business growth, resilience and improved working conditions

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Judith van Doorn
Enterprise Formalization
Specialist, ILO



Helen Bradbury
Team Leader, ALCP



Roel Hakemulder
Consultant



Merten Sievers
Global Coordinator, Value
Chains and Entrepreneurship,
ILO SME Unit



► **Formalization and the MSD
approach: business growth,
resilience and improved
working conditions**

► What ‘formalization elements’ do we look at?

- **Nature of the economic unit** (registered; licenced)
- **Internal business practices** (bookkeeping; employment contracts; compliant with tax, social and labour laws)
- **‘core value chain’ transactions with suppliers and buyers** (written contracts, quality standards, embedded services)
- **Market system** – supporting functions (e.g. access to finance, BDS, social security, quality certification)
- **Rules of the game** - formal and informal norms (e.g. effective regulatory framework, formal and/or informal norms)

► Why did we do this study?

Hypothesis

- Formalization of economic units can result in more income and better working conditions for entrepreneurs and/or workers.
- Some economic units will formalize if there are strong incentives to do so.
- (Some) incentives depend on the market system.
- MSD can facilitate market systems change that strengthens such incentives.

► From plan to action ... and beyond

A. Which programme to study?

- (No) explicit formalization objectives?
- Chances to validate our hypothesis?
- (Baseline) data?

B. What did I learn?

- A lot about **MSD**
- Something about the **hypothesis**
- Something about **incentives** (how demand for better quality products can motivate enterprises to change the way they organise the production process, formalize the business & engage with employees and suppliers)
- MSD can achieve systemic change, yet it requires a constant effort to identify (new) bottlenecks and facilitate (new) desired changes



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623,558
households
Impacted



\$30.6 Million
additional income
generated for farmers

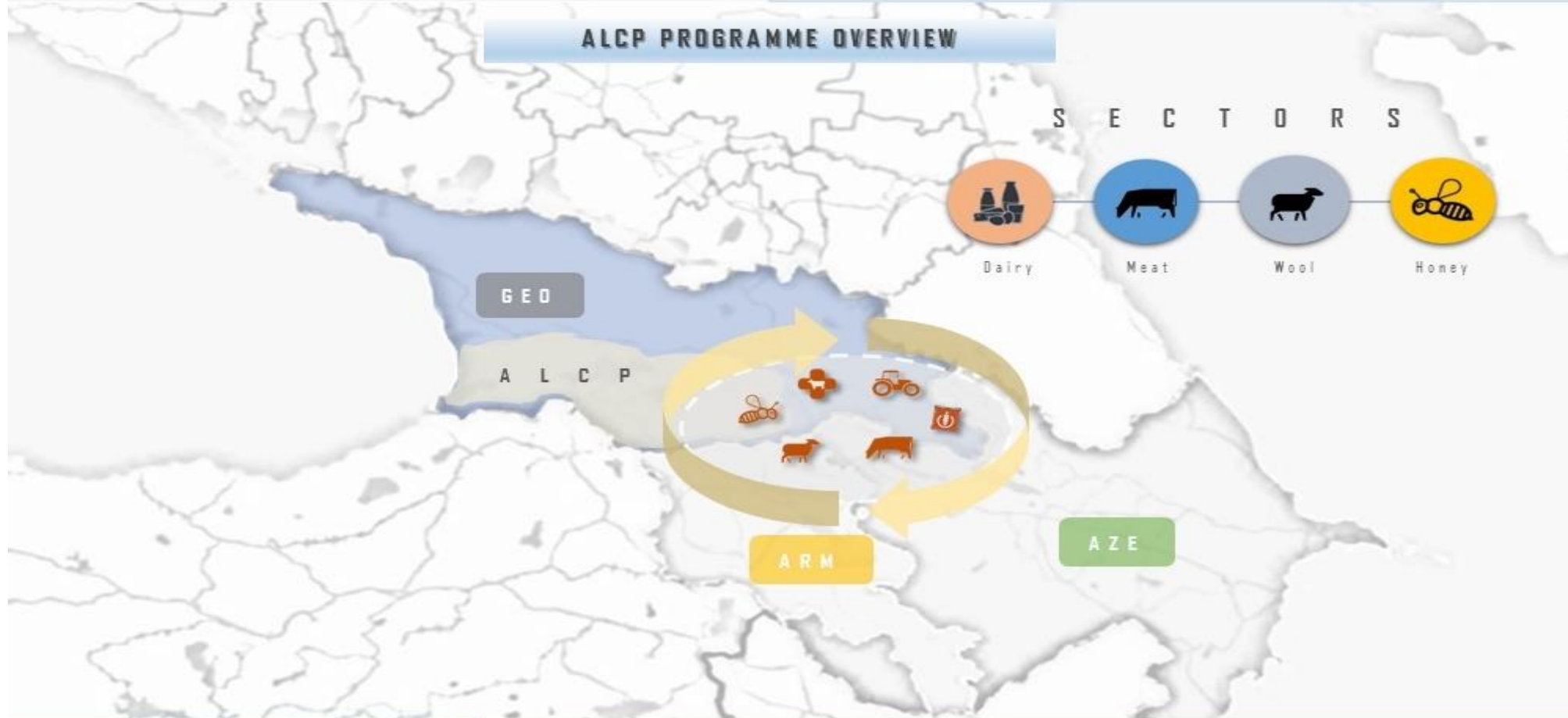


806 New Jobs created
308 Women, 498 Men



\$43.7 Million total
in income, jobs and
profit to enterprises

ALCP PROGRAMME OVERVIEW

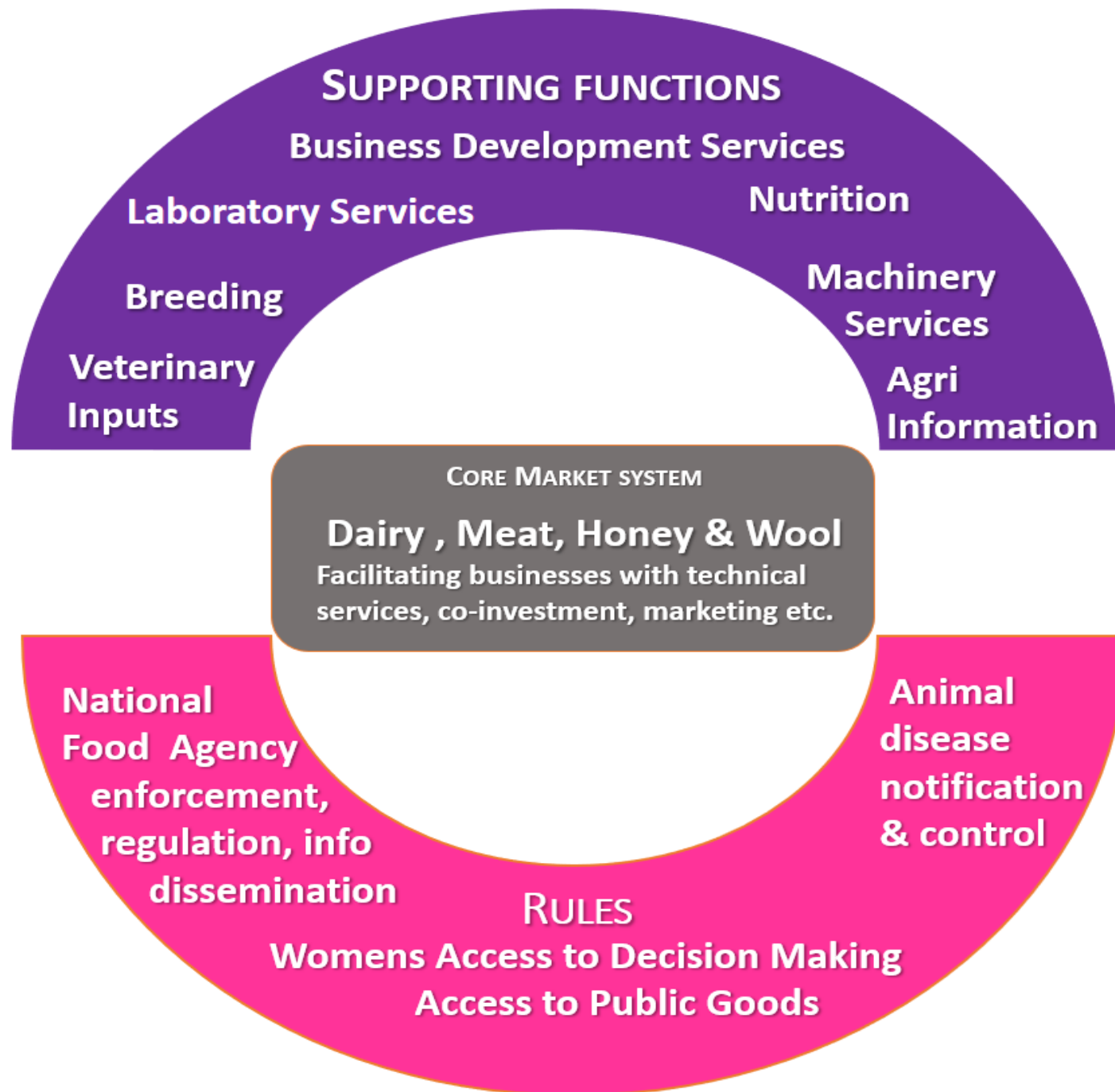


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Export destinations
for ALCP clients

ARMENIA, AZERBAIJAN, IRAN, IRAQ, ISRAEL, TURKMENISTAN, TURKEY, BRITAIN,
USA, UKRAINE, INDIA, KAZAKHSTAN, KUWAIT, BELARUS





Dairy Products Company Tsezari LTD Before, 2012 year
Sakdrioni Village, Tsalka Municipality



Dairy Products Company Tsezari LTD After, 2019 year
Sakdrioni Village, Tsalka Municipality



Milken LTD Before, 2014 year
Rustavi city



Milken LTD After, 2019 year
Rustavi city



Effect on Programme Practice

Sharper focus on jobs, the benefit of jobs and the conditions needed for decent jobs

Enhanced lens re formalization and the myriad aspects of it, to help define and formulate strategy, interventions and impact

Better Resilience clear relationship during COVID-19 of higher resilience of formalized enterprises





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Thank you
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Findings

The Alliance Caucasus Programme
impact in informality and working
conditions in the dairy sector

► Approach

Establishment of indicators for market systems change, formalization, working conditions

Extensive use of existing ALCP research; interviews with staff

In-depth interviews (64) with:

- players in the value chain
- service providers
- government

▶ Market system change (rules and market)

Rules:

- ▶ Regulation – requirements to register, labour legislation, food safety and hygiene standards, Hazard Analysis and Critical Control Points (HACCP)
- ▶ Capacity of National Food Agency largely in place for enforcement – ALCP contribution

Market:

- ▶ Growth in local demand for compliant cheese
- ▶ Formalization of cheese retail

▶ Market system change (services and value chain)

Support services to enable compliance (ALCP)

- ▶ For enterprises: finance (ALCP cost-sharing, followed by Government, other donor support, banks), consultancy, training, quality assurance
- ▶ For farmers: embedded training, quality assurance, breed improvement, improved feed; vet pharmacies and vet services; information through media; government support to transhumance (including free vaccination)

Value chain (ALCP)

- ▶ Farmers moved from producing non-compliant cheese to selling high quality milk to compliant dairy enterprises (70% in project areas, 24,000 hh)
- ▶ 50% of dairy enterprises comply with HACCP, or are working to do so (39 with ALCP support)

► Is the change systemic?

These changes, still ongoing, have demonstrated:

Sustainability

- Farmers, dairy enterprises: market access, profitability, further investment, product diversification, improved practices maintained, future plans
- Services: user fee-based, profitable, growing access and demand

Have reached and continue to reach scale

- dairy enterprises investing in expansion, more farmers involved (between 6 and 50 times increase), farmers and enterprises copying independent from ALCP (23 dairy enterprises)
- Services: being accessed by majority of farmers and enterprises

► What are the incentives to formalise?

- Survival
- Access to ALCP and other support
- Market access
- Sales and income
- Growth
- Time and money saved (farmers)

► What formalization resulted?

Farmers:

- Adoption of standard procedures and practices
- Registration of cattle, sheds

Dairy enterprises:

- Business registration and tax compliance
- HACCP compliance
- Written contracts with employees

Vertical integration of the value chain:

- Contracts between retailers and dairy enterprises
- Verbal or written agreements between dairy enterprises and farmers

► What job improvements took place?

Farmers:

- Jobs saved
- Income tripled (40% attribution to ALCP)
- Income security, sense of stability
- Reduced working hours and heavy work for women farmers
- Access to training and information
- Greater gender equality

► What job improvements took place?

Dairy enterprise employees:

- Jobs created (260 FTE)
- Income, well above the poverty line
- Security and sense of stability
- Safe working environment
- Equal pay for women and men
- But: long working weeks for many

▶ Conclusions

Farmers and enterprises and distributors formalized:

- ▶ to meet the requirements of the evolving regulatory framework.
- ▶ gain and expand access to the formal market for their products.
- ▶ ALCP's facilitation enabled them to do so.

The hypothesis that MSD can contribute to formalization and improved working conditions confirmed.

Interviews confirmed that without ALCP support it is likely most dairy enterprises would not have been able to meet the new requirements and farmers would have lost a main source of income.