

Learning PAPER

Middlemen as Agents of Change: MEDA and ECDI in Pakistan

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Abstract

Middlemen are not often seen as agents of change. After all, middlemen have come to be regarded as an exploitative force in the lives of poor producers, controlling production, paying unfair prices for labor or goods, and participating in fraudulent practices to maximize their own gains. This learning paper describes an alternative perspective that The Mennonite Economic Development Associates (MEDA) and the Enterprise and Career Development Institute (ECDI) in Pakistan have developed based on their work with poor women microentrepreneurs. The paper posits that that middlemen provide an essential service and have the potential to become active contributors to the development of more equitable value chains; MEDA and ECDI’s work has led them to see middlemen as often an essential component of a dynamic value chain who provide the critical link to markets and market information that can lift disadvantaged rural producers out of poverty.

Introduction

Middlemen are not often seen as agents of change. After all, middlemen have come to be regarded as an exploitative force in the lives of poor producers, controlling production, paying unfair prices for labor or goods, and participating in fraudulent practices to maximize their own gains. As a result, in some quarters, efforts have been made to eliminate the middleman role.

The Mennonite Economic Development Associates (MEDA) and the Enterprise and Career Development Institute (ECDI), among others, are exploring an alternative approach. Although we recognize that many unscrupulous middlemen have profited from poor producers, we also observe that middlemen provide an essential service and have the potential to become active contributors to the development of more equitable value chains.

In this paper, we draw from the research and experiences of MEDA and ECDI in developing countries around the world, with specific reference to The SEEP Practitioner Learning Program (PLP) in Business Development Services (BDS) Market Assessment (MA) conducted among poor women microentrepreneurs in three regions of Pakistan.

Middleman as “Coyote”

Coyote is the term used by Latin American farmers for a middleman.¹ Middlemen buy products from farmers, consolidate them, and sell them to local processors or exporters. A middleman might be a member of the local community who has a vehicle to transport the goods, or he may travel around the countryside to buy products. In some cases, a series of middlemen may be in the chain before the agricultural outputs reach exporters.

The common perception of the middleman, both in Latin America and elsewhere, is a monopolistic buyer who pays the lowest possible price for the produce of the poor—generally either agricultural outputs or handicrafts. This idea has been strongly supported by fair trade organizations such as Equal Exchange that consequently circumvent the middleman to offer increased profits to poor producers. While we do not question the validity of this view in many situations, we are concerned about the wisdom of attempting to eliminate the middleman. A key drawback in eliminating the middleman is that, despite the benefits of fair trade to many poor producers, such systems are limited in their capacity and can only achieve marginal global impact.²

The coyote stereotype begs the question: why do middlemen exist at all? In short, they provide a valuable service (market access) with no effective competition. As a result, they are able to consolidate the products of tens or hundreds of producers, and reap much larger profits than the producers. This system may be inherently prone to monopolistic and cutthroat dealings, but it is efficient, and no viable grassroots alternative exists for many producers.

In certain cases, however, the perceived dishonesty of the middleman may be exaggerated and even unfair. If we take the coffee subsector as an example, we observe that every step in the value chain, other than the producer, is realizing solid profits. The middleman’s margins, however, are quite small when compared to other players higher in the chain. Table 1 presents the Consumers’

Table 1. Analysis of Middleman’s Margins in the Coffee Subsector

Stakeholder	Average Received per Pound (US\$)
Small farmer	0.20–0.40
Local buyer/“coyote”	0.60
Exporter	0.85
Importer	1.05
Roaster/Wholesaler	4.00–6.00
Retailer	7.00–12.00

Source: Paul D. Rice and Jennifer McLean, “Profiles of Stakeholders in the Sustainable Coffee Debate,” in *Sustainable Coffee at the Crossroads* (Washington, DC: Consumers’ Choice Council, 1999), 21. <http://www.greenbeanery.ca/bean/documents/sustainableCoffee.pdf>

Choice Council’s analysis of the middleman’s margins in the coffee subsector.

We see in this example that not only the poor producer but also the middleman are bit players in a pyramidal value chain in which prices peak at the roaster/wholesaler level. The large roasters, such as Kraft, Nestlé, Procter & Gamble, and Sara Lee), have reached \$1 billion in sales with profits on some brands of up to 26 percent.³

Moreover, the drastic situation being experienced by many commodity-dependent smallholder farmers around the world has not been created by middlemen, but by the dramatic downturn in the price of commodities throughout the last decade.⁴ Again, using coffee as an example, prices plummeted from their peak in 1997 of US\$3.00 per pound⁵ to today’s prices that range from US\$0.7075 per pound for Colombian Milds in New York to US\$0.3437 per pound for Robustas in French markets.⁶ These prices have nothing to do with middlemen but are based on issues of oversupply,⁷ the demise of the International Coffee Agreement,⁸ speculative commodity trading,⁹ increased production in Brazil and Vietnam,¹⁰ and decreased consumption in North America.¹¹ In the case of other agricultural products such as dairy and grains, the dumping of subsidized agricultural production from wealthy

¹ For example, see Oxfam Canada, *Fair Trade Coffee: Facilitator’s Guide* (n.p.: Oxfam Canada, 2001), 20. <http://www.oxfam.ca/campaigns/downloads/Coffeekit.pdf>.

² Fairly traded goods account for less than 0.005 percent of exports from developing countries.

³ Charis Gresser and Sophia Tickell, *Mugged: Poverty in your Coffee Cup* (Boston: Oxfam America, 2003). <http://www.oxfamamerica.org/campaigncoffee/art3395.html>.

⁴ United Nations Conference on Trade and Development, *The Least Developed Countries Report 2002: Escaping the Poverty Trap* (Geneva, Switzerland: United Nations Conference on Trade and Development, 2002), 40.

⁵ Thomas Lines, *Europe and the Coffee Crisis: A Plan for Action* (London: Oxfam GB, 2003), 2.

⁶ December 2003 coffee prices.

⁷ Adrienne Roberts, “Bumper Brazilian Crop Prompts Fear of Glut,” *Financial Times*, June 7, 2002.

⁸ For example, see Gresser and Tickell, *Mugged*, 17.

⁹ Marcela Sanchez, “The Politics around Your Cup of Coffee,” *Washington Post*, June 30, 2003.

¹⁰ Roberts, “Bumper.”

¹¹ Gresser and Tickell, *Mugged*, 19.

¹² Kevin Watkins and Penny Fowler, *Rigged Rules and Double Standards: Trade, Globalisation, and the Fight Against Poverty* (n.p.: Oxfam International, 2002).

countries has also contributed to the reduction of income for poor producers.¹²

We are interested in finding ways for producers to cooperate with middlemen to reach markets more effectively, select and develop products that are more profitable and reliable, and use and adapt value chains for mutual benefit.

Poor Women in Rural Pakistan

The majority of women in rural Pakistan are marginalized by poverty, home confinement, and geographic isolation. The United Nations (UN) indicates that for the past decade, 13.4 percent of the population of Pakistan have lived on less than US\$1 per day, while 65.6 percent have survived on less than US\$2 per day.¹³ Pakistan rates 120 out of 146 on the Gender-related Development Index,¹⁴ has the lowest female gender ratio in the world with 105 men to every 100 women,¹⁵ and has maternal, infant, and child mortality rates that are among the highest in developing countries.¹⁶ Women are extremely marginalized, and the majority of women are illiterate—88 percent in rural areas across Pakistan and more than 93 percent in Balochistan.¹⁷

The situation of rural women is compounded by two additional factors: piecework and *purdah*.¹⁸

Piecework System

Rural women in Pakistan, as in many countries around the globe, often produce piecework at home. In addition to performing agricultural labor—often considered to be a part of household duties—they supplement family income by making crafts on order for which they are paid by the piece.¹⁹ Piecework is characterized by exceptionally low wages for long hours of work. With no other options, many family members will toil together to produce large quantities to increase their paltry earnings.²⁰

As with agricultural products, intermediaries form the crucial link between the market and the producers. In the case of piecework, however, the intermediary generally organizes and coordinates the work—supplying inputs, specifying quality expectations and delivery dates, making payments, and providing market access. In Pakistan, intermediaries tend to give work only to the people they know well and whom they know they can control.

Producers cite many cases of fraudulent practice, such as the miscalculation of amounts produced, rejection of work on the pretext of unacceptable quality, charging workers for raw materials or accusing them of stealing supplies, and withholding of partial or complete payment. Sometimes intermediaries give advance payments and conditional loans to the producers, but this has the effect of binding producers so that they cannot accept work from other intermediaries.

Despite the negative aspects of the middleman-producer relationship, we have observed in Pakistan that middlemen perform a very important role and offer needed services to poor producers. They provide inputs and market access that would not otherwise be available. In addition, some middlemen have developed friendly relationships with the microentrepreneurs' households over the years, and the family recognizes the value of the services received.

The Added Dilemma of Purdah

Women in rural Pakistan, bound by traditional rules of *purdah*, are largely confined to the home and are not permitted to interact with men who are not members of the immediate family.

Because buyers of women's products are usually men, transactions must take place through a male family member. Poor women producers have no direct contact with the market and consumers, are not aware of changing product requirements, and are unable to access higher value markets.

MEDA and ECDI's Market Assessment

MEDA and ECDI recently completed a SEEP PLP in BDS MA in the poorest regions of Pakistan—Multan District in Punjab; Thatta, Badin, and Hyderabad (Hala) Districts of interior Sindh; and three

¹³ United Nation Development Program, *UN Human Development Report 2003*. (New York: United Nations, 2003). http://www.undp.org/hdr2003/indicator/cty_f_PAK.html.

¹⁴ Ibid.

¹⁵ *The World Factbook*, (Langley, VA: CIA, 2004). <http://www.cia.gov/cia/publications/factbook/geos/pk.html>.

¹⁶ United Nation Development Program, *UN Human Development Report 2003*.

¹⁷ Asian Development Bank (ADB), "Situational Analysis of Women in Pakistan," in *Women in Pakistan: Country Briefing Paper* (n.p.: ADB, 2000). http://www.adb.org/Documents/Books/Country_Briefing_Papers/Women_in_Pakistan/chap_01.pdf.

¹⁸ The pre-Islamic practice of seclusion of women that has been adopted by much of the Muslim world, most notably in the Middle East and neighboring countries.

¹⁹ For example, the United Nations' Food and Agriculture Organization estimates that women who primarily work as unpaid family workers account for 25 percent of all full-time and 75 percent of all part-time workers in agricultural households in Pakistan. *SD Dimensions: Asia's women in agriculture, environment and rural production: Bangladesh*. <http://www.fao.org/sd/WPdirect/WPre0104.htm>; *SD Dimensions: Asia's women in agriculture, environment and rural production: Pakistan*. <http://www.fao.org/sd/WPdirect/WPre0111.htm>.

²⁰ For an example of a similar situation, see Nancy Lee Peluso, "3.0 CASE STUDY ONE, Rattan Industries in East Klimantan, Indonesia," in Jeffrey Y. Campbell, ed., *CF Case Study 4: Case Studies in Forest-Based Small Scale Enterprises in Asia. Rattan, Matchmaking and Handicrafts* (n.p.: Food And Agriculture Organization of the United Nations, Bangkok, 1991). <http://www.fao.org/docrep/X5860E/x5860e04.htm>.

²¹ This proposal incorporates and builds on work initiated in a feasibility study by Allan Sauder and Perveen Shaikh, A Marketing Initiative for Women Entrepreneurs in Pakistan, prepared for The Aga Khan Foundation, 2000.

²² These estimates of home confinement rates are based on the experience of the authors and other nongovernmental organizations working in the regions.

killies (Ismail, Siriki Kalan, and Qambrani) adjacent to Quetta in Balochistan that also incorporate Afghan refugee households.²¹ In addition to the hardships of poverty and illiteracy confronted by women in these communities, home confinement rates range from approximately 50 to 95 percent, with Multan being the most liberal and Quetta the most conservative.²²



Perveen Shaikh (left), Director of ECDI, with a village-level sales agent. Photo courtesy of MEDA

The market assessment sought to evaluate BDS available to women microentrepreneurs in three subsectors in Pakistan—garments, handicrafts, and information technology. We collected qualitative information from 56 women microentrepreneurs and 125 BDS providers in rural areas and urban centers. Considerable research and analysis led to the discovery of a fourth subsector—embroidered garments—that has the potential for significant market development. As a result, we redirected our market assessment efforts to focus on the embroidered garment subsector and understand existing and potential value chains. We followed the research phase of the project with stakeholder workshops and key informant interviews to pilot the development of woman-to-woman networks and deepen our knowledge of the embroidered garment subsector.

When we were able to concentrate our efforts, subsector analysis provided the following insights. A high-value niche market exists for quality, contemporary, hand-embroidered garments among middle class and affluent Pakistani women in urban centers in Pakistan and nearby Middle Eastern countries such as Dubai. Currently, most of the embroidered fabrics made by rural women

are sold in lower value traditional markets, but a portion of the embroidered material reaches the high-value contemporary market through individual women intermediaries, retail outlets, exporters, and exhibitions. If more embroidered fabrics made from inputs of appropriate quality and materials in contemporary colors and designs were available, market access could be expanded because hand-embroidered garments are sought after and highly valued. Current market access tends to be monopolized by local middlemen who provide inputs, pay for piecework on order through male relatives, and sell to shopkeepers in low-value local markets. A very limited number of women intermediaries deal directly with rural women embroiderers, while other women who would be interested in acting as intermediaries do not have the necessary contacts/relationships in the villages to set up commercial networks. Finally, although all players recognize the need for designs, no mechanism has been developed to purchase and disseminate designs through the subsector.

— Fledgling Model of Women Intermediaries —

During the course of our market assessment in Pakistan, we discovered a few women intermediaries who are breaking the mold in interior Sindh, Balochistan, and Punjab. Forced by circumstance to be more independent, or belonging to a progressive family, these women have greater freedom of movement. Consequently, they are able to meet directly with the homebound rural embroiderers. In addition to the advantage of direct communication, women intermediaries, who have done handiwork themselves, have knowledge of embroidery. Based on these two factors, women intermediaries are able to provide a rudimentary package of embedded services to embroiderers. In this case, embedded services—free advice on product development challenges such as design, quality control, and inputs—are provided along with the primary service of market access.

Only a handful of women intermediaries operate in the area, and the embedded package of services that they offer is limited, resulting in products that are not generally suitable for contemporary consumers in modern cities. Moreover, local higher value markets are saturated, and although they are aware of markets in Karachi and other large urban centers, these women intermediaries do not know how to access them.

In Pakistan, we are building on this fledgling model to create a new group of middlemen—mobile women intermediaries who will act as agents of change in the embroidered garment subsector.

— Intermediaries as Agents of Change —

MEDA and ECDI have designed a market development program to mainstream the embroidered fabrics of homebound rural women, based on a mobile women sales agent model (a type of middleman). The women intermediaries will interact directly with rural embroiderers, offering an embedded service package that includes inputs, quality control, and product design. With a total program value of US\$625,000 over three years, the program will impact approximately 6,000 microentrepreneurs.²³ Figure 1 illustrates the process that led us to base the program design on a middleman model.

To facilitate the development of women intermediaries who benefit poor producers, the market development program will center on the following activities:

- **Capacity Building.** Training programs and hands-on capacity building will be critical components in developing a viable subsector and effective intermediaries.

²³ The market development program is funded under the United States Agency for International Development's Implementation Grant Program for microenterprise development.

Figure 1. From BDS Market Assessment to a BDS Program Design—Middlemen as Agents of Change

Interviews (Phase I). We collected qualitative information from 56 women microentrepreneurs and 125 BDS providers across sectors (government, non-governmental organizations [NGO], commercial) in three rural areas—Sindh, Balochistan, and Punjab—and urban centers where we proposed to locate our market development program.

Fieldwork/Focus Group Discussions (Phase II). Fieldwork and focus group discussions were carried out with service providers that offered market access as one of their services to reach a deeper understanding of their knowledge of consumer markets as well as their willingness to develop their capacity to access new markets and deliver support to micro-, small-, and medium-scale enterprises.

Pilot Workshops (Phase III). Workshops were held for BDS providers and producers in three cities—Karachi, Multan, and Quetta—to pilot the capacity building and network development aspects of the program. At the same time, rural women were visited in three associated regions. The workshops and visits assisted in fleshing out our knowledge of the embroidered garment subsector and enabled participants to share information.

BDS Providers Database

A database of 56 women microentrepreneurs and 125 BDS providers in the three rural areas and urban centers was developed, and the data was analyzed.

Constraints Identified

- Embroiderers lack awareness of consumer demands.
- Intermediaries are not connected to large urban markets.
- Contemporary designs are not available to intermediaries and embroiderers.
- Networking and trust building are lacking.
- Input supply is inconsistent.
- Quality control is low.

Conclusions Drawn

- Poor rural women are not reaching higher value markets due to lack of product development and appropriate market channels.
- With capacity building of women intermediaries and embroiderers, along with improved networks, embroidered garments can reach higher value markets.

Implementation Grant Program Design

Goal: To assist rural women embroiderers to access higher value markets through the development of women intermediaries who offer an embedded package of services.

Intermediaries will be targeted to improve their businesses and increase profits through training in delivery of embedded service package (design and quality), bookkeeping, reporting, networking/marketing, and cost analysis/pricing.

- **Networking/Linkages.** Personal relationships are key to doing business in Pakistan. A primary focus of the program will be to facilitate the development of relationships among rural embroiderers, women sales agents, urban microentrepreneur garment makers, retailers, exporters, and designers. MEDA and ECDI will develop a facilitation team made up of a local facilitator based in each of the three rural areas, an urban facilitator in Karachi, a marketing coordinator, and an overall project coordinator. We will leverage ECDI's extensive network of contacts throughout these areas as a basis for the development of the BDS market network.
- **Market Promotion.** The vision of the final goods and services market is that high-quality, hand-embroidered garments will be available to consumers who are satisfied with designs, fabric, and quality. Other opportunities will be accessible in final goods and services markets such as embroidery

on other articles of clothing including Western styles; other embroidered articles including children's clothing, table linens, and gift items; expatriate Pakistani export markets; and general export markets. To achieve this market penetration, market development activities will concentrate efforts on two areas: (1) linking sales agents to wholesalers and other market channels, and (2) promoting the products to consumers and distributors. Promotional activities will include exhibitions, trade shows, fashion shows, branding, trademarking, designer labels, designer endorsements, a Web site, and samples.

- **Product Design.** Three types of product designers operate in Pakistan. The first are elite, well-trained designers who are out of reach of the target population in terms of cost and social status. The second are employees of small- and medium-scale garment manufacturers. The third are independent designers who design for small garment manufacturers, selected boutiques, and their own outlets. This third group is the most likely source of design services for the hand-embroidered garment sector, and a number have already expressed an interest in commercial involvement in the program.

Conclusion

Following the model of mobile women intermediaries, we will examine strategies for developing BDS markets using middlemen that offer embedded services. This model will be particularly challenging in that we will be looking at the development of embedded services throughout a value chain that is founded almost exclusively on microenterprises; no large buyers provide embedded service packages to smaller organizations. The women intermediaries will offer buying services to rural embroiderers and embed a package of product development services: product design, inputs, and quality control.

The intermediaries may in turn receive product design services as embedded services from retailers and exporters or directly from commercial product designers.

Our work has led us to the conclusion that middlemen are often an essential component of a dynamic value chain, and that they provide the critical link to markets and market information that can lift disadvantaged rural producers out of poverty. Our goal is not to eliminate middlemen but to create a vibrant, competitive market that offers poor producers a choice of intermediary, thereby reducing the risk of exploitation.

Program Targets

Over the next three years, the program seeks to meet the following goals:

- Directly reach 6,000 poor rural homebound women embroiderers, raising revenues two to three times,
- Recruit and develop 60 women intermediaries,
- Facilitate market access of 180 urban microentrepreneur garment makers, and
- Involve nine commercial designers in the subsector.

We will support the growth of three commercial, vibrant, and competitive BDS markets and the development of a viable subsector. Program activities will focus on information sharing, creation and strengthening of linkages, and training/mentoring with no direct subsidies to the subsector or BDS markets. The result will be sustainable, commercial BDS service markets within a viable and growing subsector, enabling MEDA and ECDI to exit the market at the end of the program.



A group of rural embroiderers.

Photo courtesy of MEDA

Note

The 10 organizations included in this PLP aimed to integrate microenterprises into markets and particularly focused on rural, poor, or underserved microenterprises. These organizations tested innovative strategies for market research and piloted program interventions based on the results. Throughout the two-year program, the participating organizations engaged in a collaborative learning process, assisted by a facilitator, during which they shared ideas, findings, and lessons learned; challenged each other and current practice in market assessment, and documented progress, tools, and conclusions.

The following organizations participated in this PLP:

- Association for Community Economic Development and Study of Microenterprises (PKPEK)—Indonesia
- EDA Rural Systems Pvt. Ltd.—India
- Entrepreneurship and Career Development Institute (ECDI)—Pakistan
- Intermediate Technology Development Group (ITDG)—Kenya and the United Kingdom
- International Development Enterprises (IDE)—Bangladesh, India, and the United States
- Jigiyaso Ba Credit Union—Mali
- Mennonite Economic Development Associates (MEDA)—Canada
- Swisscontact—Kenya
- Triple Trust Organisation (TTO)—South Africa
- World Education—South Africa and the United States

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