

# **Promoting Craft Exports in Guatemala Using BDS Market Development**

**Implemented by Aid to Artisans and AGEXPRONT  
Funded by USAID**

## **1. Background**

The ATA/AGEXPRONT project to promote craft exports in Guatemala is, like a number of other projects funded by USAID, aimed at developing BDS markets and promoting business linkages. Moreover, the project reflects a theme that USAID is developing under its BDS programming: mainstreaming microenterprises into markets. This involves developing a subsector with potential for growth and with many microenterprise participants, using BDS market development to address the major sector constraints to provide the micro businesses with the support they need to enter and compete in new markets.

The project is relatively small for USAID, with a budget approximating \$750,000, provided through a grant mechanism. The project was launched in October 2002 and thus is still at an early stage of implementation.

The project is innovative in that it links poor, indigenous crafts producers to a sophisticated “home accessories” market in the U.S. through a supply chain made of U.S. buyers, Guatemalan exporters, rural producers, and input suppliers. Rather than ATA and AGEXPRONT providing services directly to this supply chain, the implementing organizations are facilitating the development of local service providers, including local product designers.

## **2. Objectives**

ATA and AGEXPRONT propose to strengthen the Guatemalan craft subsector by assisting exporters in gaining access to international markets, which are larger and higher in value than local markets and offer more potential to provide sales and income to the large numbers of microenterprise producers of crafts, estimated at one million. The project will achieve these objectives by:

- Strengthening the capacity of Guatemalan exporters to develop products that meet the demands of the export market, to communicate with and obtain quality products from craft producers, to communicate with and sell to importers, and to meet importer delivery requirements;
- Building and strengthening the capacity of producers to meet the quality and quantity standards of exporters and to deliver products on a timely basis;
- Developing the local private-sector market for product development services; and
- Enhancing AGEXPRONT’s market facilitation role and services.

### **3. Implementation Strategy**

The project is national in scope. Although craft production is concentrated in certain areas of the country, these areas are scattered and thus the project is considered national. As noted earlier, the project is focused on the crafts subsector that includes various product markets: textiles, ceramics, wood crafts, and vegetable fiber crafts.

In growing the craft subsector, ATA, a NGO, and AGEXPRONT, an association of exporters, are combining facilitation services with direct provision in their plans to develop a sustainable craft export market. ATA is providing product development services, co-funded with exporters. ATA will exit from this activity during the life of the project, while developing the skills of local designers. AGEXPRONT, on the other hand, is providing training directly to producers, using funds provided by other donors. Subsidized producer training is relatively widespread in Guatemala, and USAID has not provided funds for this.

The implementing organizations aim to strengthen the craft sector and the commercial market for product development services and to foster embedded business services within the sector. They will do so by strengthening exporter capacity, stimulating exporters' and producer associations' demand for product design services, and enhancing the capacity of product design consultants.

To address market inefficiencies that impede entrepreneurial growth in the Guatemalan craft sector, ATA and AGEXPRONT are facilitating the following business services: market linkages, product development/design, consulting, and embedded services between exporters and producers that include product design training and quality production techniques.

ATA and AGEXPRONT will hire international design, marketing and technical consultants to work with exporters, producer associations, and local product design consultants to develop products for the international market. The consultant will also train local market players and consultants to improve their capacity to design products and get them to international markets, and thereby develop a local service market for product development. Although there are local designers associated with the high-end shops in Antigua; these designers do not engage in exports. The local designers that are available to exporters consist of only a handful; they are also recent university graduates and relatively inexperienced.

AGEXPRONT will encourage exporters and producer associations to hire these local product design consultants and develop a fee schedule for first-time users. Subsidies will be used to encourage exporters and producers' associations to take risk and hire local consultants. These subsidies will be temporary and meant to create more sustainable relationships in the long run. It is expected that if the experience helps to increase exporters' sales, exporters will likely use local services more regularly.

ATA will invite large buyers to visit Guatemala to develop business relationships with exporters and producer associations with the expectation of establishing long-term relationships with several exporters and producer associations.

AGEXPRONT will work through artisan-based organizations and businesses to encourage microenterprises to perform additional services such as packaging, packing, and transportation to earn a higher price for their products. By delivering products to the exporter properly packaged and packed, microenterprises can demand a higher percentage of the export price, sometimes 5-15% higher.

Facilitation services aimed at developing BDS provider capacities will include:

- Providing training, mentorship and temporary subsidies to facilitate exporter capacity to attend and benefit from international trade shows.
- Providing training and mentorship to product design consultants to develop their product development capacity.
- Providing temporary subsidies to exporters and producer associations to use product design consultants on a trial basis.
- Develop linkages between exporters/local producers and local trade venues.

In addition, the project will build AGEXPRONT capacity to provide value-added, on-going market facilitation services to members on a fee-for-service basis. These services include matchmaking events for exporters and producers, facilitating access to international trade shows, facilitating a Guatemalan trade event to attract international buyers, providing market information, and providing a database of consultants and sources of technical assistance and training. Finally, AGEXPRONT will play a leadership role in demonstrating and promoting more commercial approaches to developing the artisan sector in Guatemala.

While the project will work with exporters to help them enter the export market in larger numbers and with larger orders, the target group of the activity is the large number of rural craft producers. The baseline study reveals that these craft producers are largely women engaged in textiles, and typically poor and with relatively high levels of illiteracy.

AGEXPRONT has ready access to exporters, who are members of the association. Moreover, AGEXPRONT has been working in the craft subsector for a number of years, representing exporters, providing training services to producers, and fostering trade fairs and other sales venues for producers.

#### **4. Market Characteristics**

Estimates of Guatemala's artisan sector show that 10% of the population work as artisans. One million of Guatemala's six million indigenous people engage in craft production. Three-quarters of those artisans are women, most live in rural areas, and most earn approximately \$100 per month. They may be affiliated with a formal or

informal group, but usually act as microenterprises. Exported products include: textiles (60%), ceramics (15%), vegetable fibers (10%), and wood (10%).

The export craft market for Guatemala has been in decline in the mid-late 1990's after its peak in 1992. It suffers from a typical demand pattern in the international craft market. Traditional Guatemalan products, which had long since been on the international market, suddenly became popular due to a random convergence between Guatemalan style and consumer fashion trends. At that time, exports of traditional products soared. Then, consumer tastes changed. Guatemalan producers and exporters did not have sufficient capacity to respond to changing market demand with new products, partly if not largely because they do not use product development and technical consulting services. Producers have little access to market information and little experience with product development, and exporters traditionally focus on selling and shipping, rather than product development. As a result, they have lost their relationships with key importers in recent years. Producer associations and entrepreneurs play an intermediate role between producers and exporters, but both have weak capacity in product development and production advice.

In addition to these market forces, many organizations attempting to strengthen the Guatemalan craft market have introduced significant subsidies, while exports nevertheless continue to decline.

As noted earlier, a key service that is weak in Guatemala is product design/development. The project aims to strengthen the capacity of designers coming out of the local universities and develop a culture for design that is attuned to international tastes and styles.

Microenterprise craft producers have traditionally had business relationships with exporters, from whom they have received orders and sometimes training and inputs. In developing new links to markets, the project aims to strengthen these linkages through greater demand for craft products, improved services from exporters, and more value-added opportunities for the microenterprise craft producers.

## **5. Sustainability Plan/Exit Strategy**

There are thus three crucial elements to a strong export market that are weak in Guatemala. First, the exporters have weak market linkages with importers. Second, exporters have weak relationships with producers. Third, exporters and producer associations have weak internal product design capacity. They do not use product development and technical consulting services, which are almost non-existent in Guatemala. And finally, many organizations attempting to strengthen the Guatemalan craft market have introduced significant subsidies into the craft market, while exports nevertheless continue to decline.

The aim of the project is to address these market weaknesses to a large degree by subsidizing service provision, as a demonstration effect, and then to exit, with the

expectation that if the services have a positive impact on sales, repeat purchase will occur. ATA has experience with this approach in other countries and has found it to be successful.

A key service that ATA and AGEXPRONT will aim to develop is product development/design services. These tend to be provided by international designers at a relatively high price. The project will link Guatemalan exporters to international designers and, at the same time, develop the capacity of local designers.

To improve the market position of microenterprises in the supply chain, the project will develop the capacity of small craft businesses to package products properly for export. This can yield a price that is 5 to 15 percent higher than otherwise obtained.

## **6. Expected Results**

At the end of the project, ATA and AGEXPRONT envision a growing, more vibrant, market responsive craft sector. Specifically:

- Exporters will have increased sales and better capacity, so they will respond better to market demand;
- Exporters will invest independently in trade shows, product development services and production services that are initially subsidized by the project.
- Product design consultants will have better capacity to design for international markets and they will have stronger relationships with exporters and producer associations.
- Exporters will be better able to afford product design services; they will have direct experience of the benefits of design services, and they will have relationships with specific consultants. They will purchase services directly from designers.
- Exporters will have stronger relationships with producers, who will be more responsive to market demands.
- Larger numbers of microenterprises engaged in craft production will have linkages to exporters and, as a result, increase their sales and income.

Moreover, project subsidies on service delivery will be temporary, and any on-going services to project clientele will be fully commercialized by the end of the project. In addition, other development organizations involved in the craft sector will be more aware of the benefits of market-led and commercial approaches to delivering services and some will change practices as a result.

## **7. Conclusions/Lessons Learned**

Because this project is still in the early stages of implementation, it is not possible to discuss results. However, the project has a learning agenda that includes the following:

*Strategies for integrating the poor into mainstream markets*

- What project activities were most effective at reaching microenterprises and meeting their needs? How can the program ensure that benefits reach microenterprises?

***Strategies for embedded services***

- What are the most effective ways to intervene, following a BDS market development approach, in a market where most services are embedded? What is the most cost-effective way to do this?

***Strategies for ensuring that the poor benefit from BDS market development (market linkages)***

- How can microenterprises increase the percentage of Freight on Board (FOB) price that they earn? Which intermediaries are most advantageous for microenterprises?

This project is one among a number of USAID-funded activities aimed at integrating microenterprises into mainstream – and in this case export – markets. A major challenge of the project relates to the dynamics of the crafts market, which is currently affected negatively by the economic downturn in the US and elsewhere. Another challenge relates to working with very poor, indigenous crafts people, training them in new designs that run counter to traditional ones, and ensuring that the poorest in the supply chain benefit from the activity and are empowered by their participation in the export market.