Effective Private Sector Development: Learning From Civil Society Experience

Ian Barney
This is an independent research paper undertaken by Ian Barney and commissioned by Traidcraft Exchange. The study was supported by CAFOD as part of their ‘Thinking Small’ work, which promotes support for poor producers and small businesses as a sustainable route out of poverty.

The views expressed in this document do not necessarily represent the views of Traidcraft, nor does Traidcraft take responsibility for the accuracy of information contained in the document. Any recommendations presented refer to suggestions made by the author and have not necessarily been endorsed by Traidcraft.

The author would like to acknowledge the support of a number of people from various organisations who gave their time generously and engaged the work in an open and positive manner - particularly in helping to provide case study information. The author would particularly like to recognise the support and insight of Traidcraft’s Gareth Siddorn and Maveen Pereira in completing this report.

---

**Contents**

- Glossary ........................................................................................................... Page iv
- Abbreviations .................................................................................................... Page v
- Foreword ........................................................................................................ Page vi
- Executive Summary ....................................................................................... Page vii
- Section 1: Introduction .................................................................................. Page 10
  - Aims of the Report .................................................................................... Page 10
  - Approach and Methodology ..................................................................... Page 10
- Section 2: The Private Sector and Poverty Reduction ..................................... Page 11
  - The Private Sector in Development ....................................................... Page 11
  - The Rise of Private Sector Development .................................................. Page 14
  - Support for Private Sector Development .................................................. Page 14
  - The Impact of Private Sector Development .............................................. Page 16
- Section 3: Selected Private Sector Development Case Studies ....................... Page 17
- Section 4: Emerging Lessons for Private Sector Development ....................... Page 24
  - Scope and Focus ....................................................................................... Page 24
  - Impact, Scale and Sustainability ............................................................... Page 26
  - Engaging the Poor .................................................................................... Page 28
  - Organisation ............................................................................................. Page 29
  - Understanding the Bigger Picture ............................................................. Page 31
  - Gender and Sustainable Natural Resource Use ......................................... Page 33
  - Capacity and Partnerships ........................................................................ Page 35
  - Risk and Vulnerability ............................................................................ Page 36
  - Accessing Finance and Technical Assistance .......................................... Page 36
  - Measuring Success .................................................................................... Page 37
- Section 5: Conclusion .................................................................................... Page 39
- References ...................................................................................................... Page 41
- Annex 1: Interview Schedule ........................................................................ Page 43
**Glossary**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition/description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aid For Trade</td>
<td>ODA specifically aimed at facilitating trade between or with developing countries. The term however has become synonymous with the imposed or conditional support of donors in return for greater access to markets.</td>
</tr>
<tr>
<td>Agri-Business</td>
<td>A generic term for the various businesses involved in food production, including farming and contract farming, seed supply, agrochemicals and processing.</td>
</tr>
<tr>
<td>Bottom of the Pyramid</td>
<td>The proportion of the global population (approximately 4 billion people) who live on less than $2 per day.</td>
</tr>
<tr>
<td>Corporations</td>
<td>Businesses with their own legal identity.</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>Understanding your business' impact on the wider world and considering how you can use this impact in a positive way.</td>
</tr>
<tr>
<td>Enabling Environment</td>
<td>An expression that encompasses government policies that create and maintain positive conditions to carry out business.</td>
</tr>
<tr>
<td>Formal Sector</td>
<td>The part of the economy that is taxed, regulated, monitored or included in the gross national product.</td>
</tr>
<tr>
<td>Gender</td>
<td>The socially constructed roles, behaviours, activities, and attributes that a given society considers appropriate for men and women (WHO).</td>
</tr>
<tr>
<td>Impact Investment</td>
<td>Investments made to achieve clear social and/or environmental impact and a (often below market) financial return on investment.</td>
</tr>
<tr>
<td>Inclusive Growth</td>
<td>Economic growth that allows poor people to contribute to it and benefit from it.</td>
</tr>
<tr>
<td>Inclusive Business</td>
<td>A subset of business that seeks to integrate the poor either in value chains or to supply services/customers.</td>
</tr>
<tr>
<td>Informal Sector</td>
<td>The part of the economy that is not taxed, regulated, monitored or included in the gross national product.</td>
</tr>
<tr>
<td>Outgrowers</td>
<td>Growers that are linked by a contractual relationship with a downstream company - where the provision of inputs and share of costs, risks and benefits are defined in contract.</td>
</tr>
<tr>
<td>Non Governmental Organisation</td>
<td>Organisations that are not a part of the government and are not for-profit businesses.</td>
</tr>
<tr>
<td>Private Sector</td>
<td>Non state driven enterprise</td>
</tr>
<tr>
<td>Private Sector Development</td>
<td>Support for non state driven enterprise.</td>
</tr>
<tr>
<td>Small Medium Enterprise</td>
<td>Formal enterprises defined by number of employees, size of investment or turnover. In India a SME is any (manufacturing) business with a turnover less than $2.5m. In Bangladesh it is any business with fixed capital less than Tk100m and/or less than 100 employees.</td>
</tr>
<tr>
<td>Smallholders</td>
<td>Producers who are dependent on family, as opposed to non-family, labour (FLO).</td>
</tr>
<tr>
<td>SMART Subsidies</td>
<td>Subsidies that do not undermine market systems and would lead to a systemic change, reducing the need for further subsidies.</td>
</tr>
<tr>
<td>Social Enterprises</td>
<td>“Businesses that trade to tackle social problems, improve communities, people’s life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community” SEL</td>
</tr>
<tr>
<td>Social Business</td>
<td>“A non loss, non dividend business” Md Yunus</td>
</tr>
</tbody>
</table>

**Abbreviations**

- AIT: Aid for Trade
- BIF: Business Innovation Facility
- BRICS: Brazil, Russia, India and China.
- CSR: Corporate Social Responsibility
- DEDN: District Enterprise Development Networks
- DFID: Department for International Development (UKAID)
- EC: European Community/Commission
- FDI: Foreign Direct Investment
- GDP: Gross Domestic Product
- GDFL: Grameen Danone Food Limited
- GIZ: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
- HDI: Human Development index
- HKB: Hariyali Kisaan Bazaar
- HLL: Hindustan Latex Limited
- IFI: International Finance Institutions
- LHSP: Livestock Health Service Providers
- MDG: Millennium Development Goals
- MNP: Making Markets Work for the Poor
- MNC: Multinational Corporation
- NGO: Non Governmental Organisation
- ODA: Overseas Development Assistance
- OECD: Organisation for Economic Co-operation and Development
- PSD: Private Sector Development
- RAGS: Responsible and Accountable Garment Sector Challenge Fund
- RMG: Ready Made Garment
- SME: Small Medium Enterprises
- WDR: World Development Report
- WPC: Women’s Participation Committee
Foreword

There is a growing emphasis on the role that the private sector can play in bringing about development.

“Our new approach to working with the private sector is about us doing more with and for private enterprise, extending this work in new areas, and doing it better. We want private sector thinking to become as much part of DFID’s DNA as our work with charities and governments.”


From over 30 years of trading and development activity, Traidcraft knows that support to small enterprises and small scale farmers can transform the lives of poor women and men and can help entire communities to flourish.

There are many different kinds of company, from the largest multinational to the smallest micro-enterprise, and each can have positive or negative impacts within supply chains. There are also different roles for Government – not just as facilitator but also sometimes as referee or regulator.

Our experience also demonstrates that, to be effective in empowering citizens and impacting poverty, partnerships with companies and projects to support the private sector must be well-crafted and well-targeted. It is by no means a ‘given’ that the involvement of private sector actors in development leads to poverty reduction. There are unfortunately many examples of companies that enter into exploitative relationships within developing countries, or where investment comes at a great cost to communities and the environment with no jobs to show for the sacrifice. That is why Traidcraft is campaigning for fairer investment agreements and fairer share of risk and reward in global supply chains.

However, there are also encouraging instances when the needs of companies (to secure reliable and good quality products) and the needs of small producers (to be paid a fair price and treated with respect) can coincide. And there are many examples of excellent work – often involving NGOs or social enterprises, not just ‘big businesses’ - to build the capacity of the thousands of small businesses and groups of small scale farmers who will be the real engine of poverty eradication.

That is why we have brought together this collection of positive examples to demonstrate what can happen when we get private sector development right – and most importantly to begin to identify what are the common factors that can lead to a transformative impact on poverty.

Paul Spray
Director of Policy and Programmes
Traidcraft

Executive Summary

It is widely recognised that the private sector has a key role to play in creating growth and reducing poverty in some of the world’s poorest regions. The private sector can be said to contribute in a number of ways to development objectives, including the value created through the production of goods or services and the value derived from the use/consumption of these.

There now appears to be a significant convergence of interests between the business and development communities. This change or convergence is the result of a number of key factors including: the relative scale and assets of the private sector versus ODA, a radically changing supply and demand paradigm, increased consumer and investor expectations of business practice, and the re-emergence of agriculture as a development priority.

An additional driver of this convergence is the rise of ‘inclusive growth’ as a key developmental concept. It is now widely accepted that, whilst growth is a necessary condition for poverty reduction, it is not a sufficient condition. For growth to have a sustainable impact on poverty it needs to be better shared between different parts of society. Inclusive growth focuses on increasing the productive employment within an economy and increasing productivity. It takes a longer term and broader perspective on how positive change occurs. It focuses on the need to invest in health and education to ensure that the poor can ‘contribute to growth and also benefit from it’.

The emergence of the ‘inclusive growth’ concept suggests a shift in PSD focus towards agriculture and the SME sectors and also the centrality of gender - given the disproportionately significant role that women play in the agricultural and SME sectors.

The rising focus on ‘inclusive growth’ and a greater clarity of the potential of private sector involvement has seen a significant increase in the growth of private sector driven development initiatives.

The following lessons have been identified from a series of case studies and other insights on how to maximise the impact of PSD initiatives:

- It is crucial to define clear and manageable commercial and development goals. Whilst developmental outcomes may be the ultimate objective, without a sound commercial proposition the impact will be short lived. Managing the project flexibly and being prepared to adapt (particularly to commercial challenges) is crucial to success;

- Understanding the realities of the lives of the poor is essential to the successful design and implementation of any poverty focused PSD intervention. At the heart of this is a conceptual redefinition of the poor from passive beneficiaries to active participants. It also demands that actors assume more facilitative roles and establish and maintain trust as a priority;

- Effective organisation of poor people remains a key route to increasing their influence and power in market based activities. There is the danger that the active involvement of the private sector in helping the poor to organise could create a paternalistic relationship,
Measuring success is obviously crucial. It would, however, be wise to ensure that the expectations of data collection reflect the needs and capacities of the business venture and its stakeholders. Loading a business with burdensome reporting requirements too early in its development can be counterproductive. A solid baseline will help to ensure that, when appropriate, progress and impact can be measured against an established benchmark. Work is required to seek greater consistency of reporting across PSD activities.

The report concludes by identifying a series of practical ‘Pathways to Impact’ for PSD initiatives to maximise their contribution to inclusive growth.

This could reduce the effectiveness of these organisations in serving the long term interests of poor people;

• Private sector initiatives should ensure that, where possible, existing structures and groups are built upon and that clear steps are taken to avoid adoption. A better understanding of the stages of development of organisations will help in this regard. The path to organisational sustainability is fraught and dangerous and requires patient and committed actors. Balancing the ability to supply and demand is key to meeting expectations and maintaining trust;

• In both business and development an appreciation and consideration for the external environment is crucial. Identifying key obstacles to both development and commercial impact and successfully engaging these is a key determinant of PSD success. Explicit linkage to local or national development plans is one route to maximise the engagement with state and other key stakeholders in addressing the constraining systemic issues;

• Sustainable impact requires a delicate balance to be maintained between commercial and developmental aspects in order to address systemic market failures. Whilst scale and growth of direct impacts are desirable, the indirect and additional benefits are often as significant. As such, recognising the potential to influence corporate and public service providers should be made more explicit in project documentation and design. Demonstrating to others the viability of good PSD practice may also be more impactful than seeking scale of direct impacts;

• PSD should prioritise initiatives that seek to address gender inequities and environmental vulnerability, particularly when these priorities link to local and national development priorities. These should be built into project design and wider programmatic priorities;

• PSD almost inevitably requires partnerships between organisations that can help facilitate the participation of the poor in market based enterprise. The case studies highlight a number of apparently fruitful practical collaborations with potentially long term impact but few demonstrate or facilitate a more equitable sharing of risks and rewards;

• A greater emphasis needs to be placed on risk and vulnerability in the design and implementation of PSD initiatives. The poor are the most vulnerable to sudden stress and shock and generally seek to reduce their risk. PSD should seek to ensure that the engagement of private sector players actively seeks to reduce vulnerability or, at least, does nothing to increase it;

• Given the risks of subsidising inefficient or harmful business and the danger of corrupting efficient market forces, support for PSD needs to be as ‘SMART’ if not smarter than other forms of ODA. Where possible support should be as commercial as is possible and only offered where commercial options are not accessible or unreasonably expensive. The focus should be on initiatives that address structural impediments to change, rather than those that simply offer direct benefits, and these initiatives should be prepared to evolve as the strength and needs of key actors change;
Section 1: Introduction

Aims of the Report

This report aims to "research and find examples of civil society private sector development (PSD) projects which demonstrate a strong long term poverty impact and the potential to be supported and scaled up by larger donors, to draw out key characteristics/learning in order to inform future project design and dialogue with DFID/EC." 

Approach and Methodology

This report draws lessons from a series of case studies from India and Bangladesh. The information presented is sourced from secondary data and interviews (Annex 1) with key informants. It is not an impact study but tries to draw lessons from these case studies to inform future support for PSD initiatives. 

In some of the cases accessing independent assessments of progress or impact has been challenging. Independent impact studies relating to 4 of the 5 case studies have been referred to. Internal project reports and a number of independent research articles have been used as additional source materials.

Assumptions rely on the accuracy of the data reviewed or provided in the interview and, whilst as up to date as possible, are prone to the dynamic commercial realities that these PSD initiatives face.

Section 2: The Private Sector and Poverty Reduction

The Private Sector in Development

It is widely recognised that the private sector has a key role to play in creating growth and reducing poverty in some of the world’s poorest regions. There is, however, weak evidence (IDRC 2012) and differing perspectives regarding the relative impact that different elements of the private sector have on development and particularly on poverty reduction.

".....some kinds of growth reduce poverty more effectively than others. The distribution of income can change as average incomes rise, becoming more or less equal. The expansion of the smallholder farming, for example, cuts poverty quickly, raising the income of rural cultivars and reducing the price of the poor's food bill. Growth in labour intensive manufacturing also raises the income of the poor. The expansion of capital intensive mining industries, on the other hand, can result in jobless growth making little impression on poverty." The Commission on Growth and Development, 2008.

In this report we understand the private sector to include personal and corporate enterprise i.e. ranging from multinational corporations (MNCs), large indigenous businesses, small and medium enterprises (SMEs), cooperatives and the informal sector. Each of these categories represents non-state driven enterprise which contributes to economic and social development, both positive and negative. Whilst a world separates a large MNC (e.g. Ford Motor Company) from a street hawker or a small mechanics workshop they are all involved in risk taking with the intention of generating a return.

The Rise of Private Sector Development

Despite wide acceptance of the important contribution of the private sector in development their role has not been fully embraced in development thinking or implementation.

"...The private sector still remains tangential to mainstream development policy and practice" Davis 2012.

This is beginning to change. There now appears to be an increasing convergence of interests between the business and development communities (Bulocch 2010). Whilst, in the past, interest in the private sector’s role in development had largely been limited to ensuring that their activities did no harm, problem solving of awkward situations in developing countries or corporate social responsibility; today this agenda appears to be more significant. This change is the result of a number of key factors.

The relative scale and assets of the private sector

FDI flows continue to dwarf ODA and there is wide recognition of the assets that the private sector can bring to the table, for example a highly skilled workforce, ability to scale, financial resources, and access to new technologies.
The growing commercial importance of developing economies

Economic growth in Europe and North America has largely stagnated. The nature of the contributing financial crisis suggests that the road to recovery will be a long one. By contrast demand from the BRICS countries continues to grow (albeit at a slightly slower rate). Together with the latent potential and the changing consumer preferences of other low and middle income countries (including the base of the pyramid), businesses are being forced to reposition themselves globally and to have greater interest in the developing economies that will ensure future growth.

Another growing challenge is assuring supply in an increasingly uncertain and competitive world. Climate Change and the growth in demand from the BRICS have created severe competition for scarce resources (e.g. natural and human) across the world. The reflective volatility of commodity markets has added to the uncertain supply outlook. These resources are frequently situated within developing countries.

Converging interests and cross fertilisation of ideas

Traditionally the nature of the private sector’s engagement with developmental processes has largely been one of ‘business as usual’, with philanthropic endeavours potentially added on.

There are signs that more interrelation between the two worlds is emerging - perhaps a new paradigm of converging interests. Sustainability practices are slowly integrating themselves across business activities. CSR (assumed to be largely peripheral to core business practice) is being replaced by ‘inclusive business’. There is an apparent cross-fertilisation of ideas and increasing evidence of a realisation of the relative strength and assets of different sectors.

Adversarial relationships are increasingly being replaced by partnerships. Cultures and languages are becoming intertwined.

Box 1: Inclusive Growth in India and Bangladesh

“Achieving minimum agricultural growth is a prerequisite for inclusive growth, reduction of poverty levels, development of the rural economy, and enhancing of farm incomes,” Indian Economic Survey March 2012

“In Bangladesh, the SMEs account for about 45 percent of manufacturing value addition, 80 percent of industrial employment, 90 percent of total industrial units and about 25 percent of total labour force.”


“The Bangladesh private sector is really doing a lot - it’s because of the private sector that Bangladesh is growing faster.” “And female entrepreneurship is growing fast, helping Bangladesh to grow. A lot of women entrepreneurs are coming up.”

http://southasia.oone.world/todays-headlines/bangladesh-women-fuel-growth/3reachtermivative-sector

The pursuit of inclusive growth

It is increasingly accepted that, whilst growth is a necessary condition for poverty reduction it is not a sufficient condition. For growth to have a sustainable impact on poverty, it is widely considered necessary for it to be better shared between different parts of society. Unlike the term pro-poor growth (which suggests a focus on income redistribution) inclusive growth focuses on building productive employment within an economy and increasing productivity. It takes a longer term and broader perspective on how positive change occurs. It focuses, for example, on the need to invest in health and education to ensure that the poor can ‘contribute to growth and also benefit from it’.

“Inclusive growth refers to both the pace and the pattern of the economic growth. The literature on the subject draws a fine distinction between direct income redistribution or shared growth and inclusive growth. The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution.” K. C. Chakrabarty, of the Reserve Bank of India.

The goal of increasing productive employment and particularly the creation of formal wage labour opportunities is based on evidence that this allows the poor to reduce risk and invest in their futures. For many of the poor the reduction in vulnerability or increased security that a regular wage provides is a key objective.

“Poor families take preventative actions to limit risks even at the cost of higher levels of income. A steady and predictable income makes it possible to commit to future expenditure and also makes it easier and cheaper to borrow now.” Banerjee and Duflo 2011.

It is, however, acknowledged that there are good (‘decent’) and bad jobs and everything in-between (Box 2). It is widely recognised that the provision of good jobs is an essential element of allowing the poor to invest in their futures and move out of poverty.

“The wage labour opportunities, like entrepreneurial activities can be located on a continuum, encompassing ‘bad’ jobs at one end of the spectrum (poorly paid, highly exploitative and often demeaning work) and ‘good’ jobs at the other, characterised by formality of contract, decent working conditions, regularity of pay along with social and legal protection.” Kabeer 2012.

The re-emergence of agriculture as a development priority

The emergence of the ‘inclusive growth’ concept has refocused attention on the agricultural and the SME sectors.

The World Development Report 2008, Agriculture for Development (World Bank 2007), confirmed the re-emergence of agriculture as a key development priority. The changing demand and supply conditions surrounding food, and the increasingly speculative nature of international commodity markets, highlighted the related issue of food security. The private sectors’ relationship with agriculture is again under the spotlight.

“Three quarters of the world’s poor live in rural areas and depend on agriculture, forestry and fisheries for their income and subsistence. Farmers make up one third of the world’s population, 1.5 billion of which are ‘small-holders’ who grow most of their own food. In many developing countries, agriculture generates around one third of the national income and...”

1 http://businessmirror.com.ph/home/opinion/32372-a-key-to-inclusive-growth
employs two-thirds of the work force, the majority of whom are women.”
http://www.dfid.gov.uk/What-we-do/Key-Issues/Food-and-nutrition/Agriculture/

In a study of 25 countries Cervantes-Godey & Dewbre (2010) noted that “over one-half of the reductions in poverty in selected countries were due to growth in agricultural incomes, over one-third to growth in remittances and only just over 10% due to growth in non-farm incomes.”

In India the agricultural sector employs almost 60% of the total workforce. In Bangladesh the figure is lightly lower at just above 50%. In both countries the rural population is greater than 70% of the total (Table 1).

Table 1: Agriculture Headlines (2005)

<table>
<thead>
<tr>
<th></th>
<th>India</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Share of GDP</td>
<td>19.3%</td>
<td>21.0%</td>
</tr>
<tr>
<td>Agricultural employment as a share of total employment</td>
<td>57.0%</td>
<td>51.7%</td>
</tr>
<tr>
<td>Female agricultural employment as a share of total female employment</td>
<td>46.0%</td>
<td>60.9%</td>
</tr>
<tr>
<td>Rural Population as share of total</td>
<td>71.7%</td>
<td>75.3%</td>
</tr>
</tbody>
</table>

Adapted from: Fontana & Paciello 2009

Support for Private Sector Development

The rising focus on ‘inclusive growth’ and a greater clarity of the potential of private sector involvement has seen a significant increase in the growth of private sector driven development initiatives. There has been a subtle shift in language too from the ‘loaded’ Aid for Trade (AfT) terminology to wealth creation and Private Sector Development (PSD).

Box 3: Support to SMEs

“Evidence shows that SMEs are more constrained by financing and other institutional obstacles than larger enterprises. Access to seed- start up- and early-stage financing remains a major challenge for many entrepreneurs, and this is exacerbated by the weaknesses in the financial systems of many developing countries. Policy measures that seek to increase access to finance may include facilitation of access to loans, credit guarantees, and venture capital and equity funds. However, these instruments should be provided in partnership with the private sector, as there can be pitfalls in government involvement in SME financing.” [UNCTAD 2011]

Supporting regulatory frameworks that create an enabling environment and improve the business climate.

The nature of support for PSD takes many forms. Different donors/actors/funders offer different blends of instruments, including grants to develop capacity and stimulate market access, trade finance to facilitate the market participation of weak groups, loan guarantees, debt finance, and access to direct equity investment.

The mix of support offered reflects a number of key factors, for example, donor preferences, particular constraints to inclusive growth, sectoral priorities identified in national development plans, the needs of specific sectors and also the stage of an economy’s development.

The IFC (2011) describes the ‘mix’ of grant and investment capital changing as countries become more developed (i.e. more grants and less investment when a country is weak and more investment as it becomes stronger). Whilst perhaps simplistic, this does acknowledge the fundamental relationship between the private sector’s willingness to invest and risk. In many countries the external risk factors (e.g. unstable government, armed conflict, and climatic risk) make investment decisions difficult. As infrastructure and stability are improved so external factors become less of a critical factor and the particular risk and reward profile of the commercial endeavour becomes more pivotal to the investment decision.
The Impact of Private Sector Development

As the scale of PSD activity continues to grow so the desire to understand better how it impacts poverty increases. This desire is derived from practitioners but also consumers and politicians.

Over the past twenty years, as advances in global communications have made the world a more connected place, there has been a dramatic increase in consumer awareness of private sector activity and the terms under which trade takes place.

“There is a different dynamic. The vigilance on international chains is much greater. Their practices tend to be much better than local traders.” Interview 11

Consumer concern is reinforced by a wider political interest in increasing the positive impact of the private sector, both domestically and internationally. Issues such as commodity speculation, payment of taxes, appropriate remuneration and impact on the environment are currently high on the political agenda.

Whilst donors increasingly appear to be seeking to focus on initiatives that have the potential to contribute to inclusive growth, it is inevitable that they will currently support a range of initiatives which have a different balance between growth and pro-poor drivers (Fig 1). This ‘balance’ will be influenced by a number of factors, for example, the donors’ ideological stance towards growth and its relationship to poverty reduction, operational capacity and political factors.

Section 3: Selected Private Sector Development Case Studies

This research aims to help develop a better understanding of how PSD can better contribute to inclusive growth and maximise its impact on the poor (Fig 2). We will come back to these ‘Pathways to Impact’ in the report’s conclusions.

The following section presents five PSD case studies from India and Bangladesh. The case studies chosen represent the diverse nature of private sector activity from unorganised farmers, to garment workers, and large indigenous businesses who see the poor as both an important potential market but also an important source of supply. These case studies have been selected because they have strong civil society involvement, have demonstrated impact on the lives of the poor and have also displayed the potential to ‘scale’ these impacts.

The case studies are:

1. Sustainable Livelihoods for Poor Producers (SLIPP): Building Institutional Capacity for Rural Farmers- and the Challenge of Growth (Traidcraft)
2. Grameen Danone Foods Ltd: Turning Business on its Head (Grameen)
3. Chetna Organics: Back to Basics but Forward in the Value Chain (ICCO/Solidaridad)
4. Shomparka - Making Markets Work for Smallholder Farmers and Rural Producers’ in Bangladesh (Practical Action)
India is a country of over 1 billion people. It is estimated to be the fourth largest economy in the world (behind China, USA and Japan). Economic growth rates slowed in 2011 to 7.2% but India continues to demonstrate impressive progress. Despite this growth, India is said to have approximately 500m people living below the poverty line. Along with China, they account for over 50% of the world’s poor (Sumner 2012). In 2011/12, India was the second largest DFID country programme.

### Table 2: Basic Developmental Indicators

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>134</td>
<td>3468</td>
<td>36.8</td>
<td>129</td>
<td>200</td>
<td>25.8%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>146</td>
<td>1529</td>
<td>31.0</td>
<td>112</td>
<td>240</td>
<td>41.7%</td>
<td>18.7%</td>
</tr>
<tr>
<td>UK</td>
<td>28</td>
<td>33296</td>
<td>n/a</td>
<td>34</td>
<td>12</td>
<td>0</td>
<td>0.5%</td>
</tr>
</tbody>
</table>


Bangladesh’s population is 162 million. It ranks 146th (twelve positions below India) in the HDI Ranking, with a GNP/capita of $1529. Bangladesh, like India, has also enjoyed a period of relatively good growth and has been a significant recipient of FDI. In 2011/12, DFID’s Bangladesh country programme budget was £202.8m – the fourth largest.

Case Study 1: Sustainable Livelihoods for Poor Producers [SLIPP]: Building Institutional Capacity for Rural Farmers and the Challenge of Growth (Traidcraft)

This project aimed to increase the income, create employment opportunities and improve the livelihoods of small scale farmers in northern Bangladesh through enhanced access to business services. To achieve this, the project helped to facilitate the formation of producer groups, provided support to providers of business services and sought to influence the policy environment affecting the groups. The project focused on 3 sectors: vegetable production, duck rearing and fish farming.

SLIPP addressed three fundamental challenges faced by farmers, namely: poor access to business services, inefficient supply chains and unsupportive business environments. A subsequent scoping study prioritised three sectors for assistance and participatory market/value chain research and a decision was taken to engage directly with key private sector players.

SLIPP was a five-year, €600,000 project, co-funded by the European Union (75%) and Traidcraft Exchange (TX) (25%). Officially commencing in 2007, the project was managed by TX and implemented by Development Wheel (DEW), with eight field-level partner NGOs.

Over the course of the project, there was engagement with two key input providers: Syngenta and Renata.

The impact of the project appears to have been impressive. It aimed to reach 1,500 households directly. By the end of the project, over 2,400 had been engaged. Farmer income in vegetable growing regions was estimated to have grown by between 52-78% and employment opportunities in the same communities grew between 27-36%. Arguably the biggest success was the broader impact on livelihoods. However, whilst farmer groups are established, their independence and autonomy will need to be sustained.

The project has since been extended, with support from DFID and the Big Lottery Fund, with view to reaching 9,000 households over the next five years. The engagement of key private sector partners (Syngenta and Renata) and impact on their practices has also ensured the scalable nature of the project’s impact. Syngenta have already trained 2,880 retailers across the country and, by 2014, plan to have trained 7,000 retailers in providing good quality technical advice to farmers.

Amongst the key lessons emerging are:

- The need for projects to be more market focused. This is particularly relevant as new groups form and volumes grow;
- Group organisation is essential to engaging the private sector;
- Ability to demonstrate scale is important in order to incentivise further engagement by private sector actors;
- Some of the biggest benefits were created by influencing the practice of private sector players and state providers.

Further Information:

http://www.traidcraft.co.uk/


Case Study 2: Grameen Danone Foods Ltd: Turning Business on its Head

Established in 2006, Grameen Danone Foods (GDFL) is a unique experiment between Danone, the world’s largest manufacturer of dairy products, and the famous Grameen group of organisations. Driven by the clear social objective of improving the nutritional status of Bangladeshi children, the business produced and distributed fortified yoghurt (Shokti) at an affordable price. The business attempted to maximise its impact on local development.

Bangladesh ranks 146th in the Human Development Index (HDI), with an estimated 50% of its young malnourished. The venture aimed to address this particular challenge and also provide employment, specifically for poor women to distribute the product and source milk from local farmers.

GDFL was set up as a social business. Investors are able to recoup their investment but do not receive further dividends. All subsequent profits will be reinvested into the business to achieve the primary social objective. Initial capital for the venture was provided 50/50 by Danone Companies and four of the Grameen Family companies. Danone Communities is a mutual fund set up by Danone shareholders and specifically acts as a social business incubator.
The business brought together the manufacturing and commercial skills of Danone and the grassroots foundations of the Grameen Bank and associated companies. GAIN provided specialist advice on nutrition and the nutritional impact on consumers, whilst in the development of a reliable local supply of milk, the business also partnered with the Inter Cooperation NGO.

Since the plant became operational in 2007 the business has encountered a number of challenges. Key amongst these was a significant increase (double in one year) in the market price of milk, which led to a need to increase the selling price of the product and resulted in a collapse in sales and the distribution network. This forced the business to reassess its business model. However, in 2010 the business sold 26 million pots of yoghurt - a tenfold increase since 2008. It is still making a loss but hopes to break even by 2013.

“In December 2010, Grameen Danone Foods Ltd. brings additional income to 821 ladies, created 177 jobs directly and works with nearly 400 micro farmers.” Danone Communities.

There is also emerging evidence that the sales of the product have had a positive impact on nutritional status:

“There these preliminary findings show that micronutrient fortified yoghurt has a positive impact on children’s growth rate in terms of height; computerised tests also revealed improved capacity of children to concentrate and learn” Dr Sunil Sazawal, GAIN 2011.

The plan was to start small, prove the viability of the product have had a positive impact on nutritional status:

Key lessons emerging from the work include:

- The danger of underestimating the challenge of building capacity;
- The need for realism about the time required to reach commercial viability. The margin in social business is low and there will be many unforeseen challenges;
- Reaching the very poorest is likely to require an element of cross-subsidisation from other markets;
- The dangers of being driven by the needs of the supply side without proper consideration for the market realities;
- The importance of having the flexibility to reassess the model when the commercial environment changes.

Further Information:
http://www.pnyx.org/index.php?id=34&tx_ttnews%5Btt_news%5D=1568&tx_ttnews%5BbackPid%5D=29&cHash=c8a27af195
http://www.youtube.com/watch?v=mEFugblk9Jk&feature=related
http://www.youtube.com/watch?v=AV4WQV32jjs&feature=related
Further Information:

Case Study 4: Shomparka - Making Markets Work for Smallholder Farmers and Rural Producers’ in Bangladesh (Practical Action)

This case study highlights an innovative methodology (Participatory Market System Development) for assessing the markets in which poor actors participate. It defines an holistic set of interventions designed to address the often complex and interrelated constraints to their more positive market engagement. The project focuses on beef and dairy farmers in four districts of Bangladesh.

The ‘goal’ of this project (€ 848,000; 2007-12; funded by the European Union) was to increase the income and employment opportunities, for poor and disadvantaged rural producers, from production and trade in farm and non-farm activities. The specific objective of the work was to enhance the role and performance of community level NGOs in developing viable markets for affordable business and extension services; and to improve the business environment for poor and disadvantaged producers.

The project focused on the creation of effective organisations at three levels: four District Enterprise Development Networks (DEDN), 195 Livestock Health Service Providers (LHSP) and 199 producers group (147 dairy producers groups, fifty beef producers groups and two pottery producers group).

The DEDN brought together key representatives from Government departments and the private sector to help create “an enabling business environment that can accelerate market performance”. The DEDN also performed a monitoring role of project activities and outcomes. The LHSP aimed to provide a range of technical services to producers and particularly to facilitate the engagement of Government livestock departments and twenty-one agro-vet medicine companies. The key role of producer groups was to facilitate the bulk purchase of product at good prices and to provide a conduit between producers and service providers.

Through these mechanisms the project delivered (in partnership with four core NGOs - one in each district- and twelve associate partner NGOs) services to 4,509 members of the producer groups and an additional 45,000 producers. The project reached over 1,000 vulnerable women.

The impact on producers was as follows: the income of milk producers increased by 163% over five years; income of beef producers increased by 587% over five years; income of vulnerable women (within these two groups) increased by 129% over five years.

Key lessons emerging include:
• Building relationships built on trust between market actors is crucial;
• Engagement with the private sector was crucial in helping producers access good technical advice and contributes to post-project sustainability;
• Engaging Government and the public sector is crucial in order to help access and influence the provision of public services;
• Participatory analysis is important in order to establish a better understanding of market realities and to generate local ownership of emerging strategies.

Further Information:
http://practicalaction.org/practical-action-bangladesh-1

Case Study 5: Empowering Women Ready Made Garment Workers Project: A rights based approach (ActionAid Bangladesh).

This initiative, led by ActionAid Bangladesh and funded by DFID’s RAG Challenge Fund, seeks to improve the working conditions of women within the Bangladeshi Ready Made Garment (RMG) sector, by increasing their awareness of existing legal rights and by facilitating the organisation of workers into women’s participation committees (WPC).

The garment sector in Bangladesh generates 80% of the country’s export earnings. Over three million workers are employed in the sector, of which an estimated 85% are women. Trade Unions are not permitted in the Bangladeshi garment sector and it is difficult for workers to enforce their rights. Many garment manufacturers are small and privately owned enterprises. Competition in this sector is fierce.

The project works with five local NGOs, who helped to identify leaders amongst RMG workers; form WPC; provide training on aspects of employment practice and Bangladesh labour laws e.g. calculation of wages, freedom of association and overtime rights; and seek resolution to disputes.

The project targets 200,000 women workers in 1,000 of the estimated 4,500 garment factory units in Bangladesh. This follows a first phase of the project (funded by GIZ) which targeted 5,000 workers in 100-150 factories.

In the first year of the project sixty-eight WPC were formed, helping to provide training to 95,000 workers. Of the 4,228 disputes registered between workers and employees 85% were “resolved amicably outside the labour court”.

Key lessons emerging include:
• The inclusion of men in the project is important in order to strengthen the role of women;
• Mobility of labour, increased working hours and illiteracy all provide additional challenges to building the knowledge and capacity of workers;
• If women workers are to have greater and more effective voice, mid-level management staff need to be targeted;
• The significant back-log in the courts makes the legal pursuit of problems frustrating.

Further Information:
http://www.actionaid.org/Bangladesh
Section 4: Emerging Lessons for Private Sector Development

Drawing on the case studies presented in Section 3 and further afield, this section aims to identify some of the emerging characteristics of effective PSD. The section is divided into the following sub-headings:

- Scope and Focus
- Impact, Scale and Sustainability
- Engaging the Poor
- Organisation
- Understanding the Bigger Picture
- Gender and Sustainable Natural Resource Use
- Capacity and Partnerships
- Risk and Vulnerability
- Accessing Finance and Technical Assistance
- Measuring Success

Scope and Focus

In any market-based pro-poor initiative, it is crucial to define clear and manageable commercial and developmental goals. Whilst developmental outcomes may be the ultimate objective, unless the commercial proposition is sound, the initiative will be short-lived. Similarly, unless the developmental context and desired outcomes are clearly understood, the commercial initiative may have limited impact on the poor and even enhance their vulnerability. Managing the project flexibly and being prepared to adapt (particularly to commercial challenges) is crucial to success.

Private sector engagement with the poor can have very different starting points. The case studies featured, for example Traidcraft's SLIPP and the Shomparka project, responded to the need, identified within poor and marginalised communities in Bangladesh, for better access to markets and technical advice. ActionAid Bangladesh’s support to garment workers focuses very clearly on improving the quality of female employment.

These interventions are in contrast to an emerging group of PSD initiatives which are driven by clear and immediate commercial opportunities. Box 4 (Agora Supermarkets) provides an example of such an initiative. Here, the need to improve the quality and reliability of supply of fresh produce created the incentive for a supermarket to engage more progressively with their suppliers and grapple with the complex issues of inclusivity.

Chetna Organic represents a group of innovative farmer cooperatives, who own their own trading company and have attempted to grow their market access with a differentiated offer. Chetna demonstrate a focused commitment to a single product (cotton). Only now, as growth becomes more challenging, are they considering expanding their remit and scope.

Box 4: Agora Supermarkets, Bangladesh

Agora Supermarkets, supported by the Business Innovation Facility (BIF), is attempting to develop a more reliable fresh produce supply from local SMEs in order to meet the anticipated demand of their growing business.

Agora plan to grow from an existing ten outlets to over fifty within the next five years. Fresh produce accounts for approximately 50% of company revenue and is sourced from SMEs across the country. To develop a reliable and sustained supply of high-quality and safe produce these suppliers would need significant support.

The project will offer tailored capacity development support in ten key areas (e.g., strategic planning, supply chain management, and finance and human resources). Progress will be mapped using the Supplier Capability Development Tool, which identified forty-one key competency areas.

It is hoped that the project, in addition to improving the practice of suppliers, will also change the way in which Agora engage with issues of inclusivity.

“Whilst the standards and practice of the suppliers was perceived to be the biggest objective, in reality, changing the behaviour of Agora itself seemed to be the biggest challenge.” (Interview 6).

http://businessinnovationfacility.org/page/agora-inclusive-fresh-produce-supply-chains-bangladesh

Grameen Danone Foods Limited (GDFL) is, like Chetna, a business with very clear social objectives. The agreement between the two lead partners (Grameen and Danone) not to take money out of the business is exceptional but possibly limits its scope for replication. It does, however, provide a unique insight into how commercial skills can be applied to a series of developmental challenges.

In 2008, GDFL was forced to significantly restructure their business in light of changing market conditions. This is the reality for PSD initiatives working in a dynamic and competitive commercial environment. HKB (Box 5) provides another example of this reality, where a retail chain expanded their offer to include the provision of technical advice and also a commodity buying service. Their recent restructuring, after many years of apparent growth, cited these additional services as particularly problematic.

This highlights the fact that, regardless of developmental outcomes, first and foremost businesses need to survive and prosper in a competitive market place. It also demonstrates that any market-based initiative, particularly one where there is a significant engagement with poor people, requires flexible and responsive management. Social enterprise and inclusive business has been described as the “extreme sports” of the business world.

PSD is messy! Bad PSD is that which doesn’t embrace the mess.” Interview 11.
Impact, Scale and Sustainability

Sustainable impact requires a delicate balance to be maintained between commercial and developmental concerns. Commercial success is, however, the essential foundation to PSD impact on poverty. Growth without solid foundations could be counterproductive - increasing rather than decreasing their vulnerability. Whilst the scale and growth of direct impacts are important, indirect and additional benefits are often as significant. As such, planning to influence wider corporate practice and public service provision is crucial. Demonstrating to others the viability of interventions may also deliver more impact than seeking scale for its own sake.

The ultimate test for a PSD intervention is the sustainability of impact on the lives of the poor. The five case studies all appear to have had a positive impact, however, much of the data is anecdotal and, in many cases, it is too soon to demonstrate sustainable impact convincingly.

As an example of direct impact, Box 6 provides a summary of Chetna’s work. Innovations’ (2012) evaluation of Practical Action’s support to farmers in Bangladesh also highlights positive impact.

Md Muklasur Rahman Mukul, a group farmer, said that “we used to sell our vegetables individually. Yet the transportation cost was high, almost two times. Group selling has reduced our transportation cost and also saved our time, since only one of our group members is managing the selling arrangements. Traders find us as important suppliers for them.” Innovision 2012.

Despite the handicap of not having established a baseline, the ActionAid garment sector project has delivered positive outcomes:

“75% of the workers interviewed, in a representative and gender differentiated survey, confirm that they find an improvement at their workplace on the basis of the 10 key criteria - such as remuneration, working hours, grant of maternity leave, implementation of industrial protection, and freedom of association.” GFA Consulting 2012.

Box 5: Hariyali Kisan Bazaar, India

Hariyali Kisan Bazaar (HKB) is an innovative retail enterprise, aimed specifically at India’s small farmers. In addition to providing access to a variety of agricultural products, it provides technical advice and extension services to farmers and also purchases agriculture produce from farmers.

USAID supported FPRFI ($700,000 over two years) to provide guidance and support to HKB in the provision of business services to its customers. In addition, HKB also worked with research institutions to help share best practice and ICICI Bank (India’s largest private-sector bank) and local transport providers to increase farmer access to the stores.

Despite significant initial success, growth (some 300 stores in eight states) and impact on farmers’ lives...

“106,875 farmers adopted improved practices as a direct result of HKB agricultural services. 96.187 achieved yield increases averaging 15-20%.” (Krieger 2011b)

...DSCL (the parent company of HKB) announced, in 2012, the closure of seventy stores due to losses sustained principally in the commodity trading and seed businesses.


Box 6: Chetna Organic Impact Snapshot

“Chetna’s cotton intervention in Orissa hasouched the lives of 3,000 farmers and created over €563,300 of additional incomes.

Interestingly, indirect benefits are often regarded to be as significant as the direct. In the case of Chetna’s and Practical Action’s work, this included explicit targeting of public provision of technical advice. In the case of Practical Action’s work, the facilitation of DEDNs and LHSPs appears to be an excellent example of engagement with a range of service providers, with the intention of increasing access of the poor to services and thereby helping to ensure a positive legacy to the intervention.

The SLIPP project focused on influencing the way in which two companies providing input carried out their business. Mr Adam Ali, Sales Director for Syngenta Bangladesh, said that “we have started marketing amongst small and marginal producers through SLIPP in Mymensingh region and have increased our sales extensively. Now we have practical knowledge and experience on how to promote a market for small and marginal producers. This knowledge helps us implement similar activities in other areas. For doing so we are promoting a small package of products - a big change in marketing strategy.”

Danone also provided evidence of impact on the way in which commercial partners approach their work; “...you have changed our corporate life. Thanks to your vision and enthusiasm, we may change a small bit of the way business is done by multinationals.” Emmanuel Faber, Head of Danone Asia, quoted in Yunus 2007.

This influence on the wider behaviour of private and public actors appears to be a key determinate of the scale of impact. It links strongly to the need to understand the broader context and to clarify the objectives of the intervention. Recognising the potential to influence corporate and public service providers should be highlighted and made more explicit in project documentation and design.

Whilst direct impact on more people is clearly a desirable outcome, in many cases, growth brings a number of challenges. These include: access to finance (particularly cash flow); the ability to recruit professional staff to often very remote locations; a failure to meet the expectations of suppliers; and the development of institutional systems and structures.
“Organisational structure means that we can’t draw on any external equity for funding. We rely on debt and grants and any self generated profit.” Interview 3.

The GDFL case study contains its own warnings. Whilst initial ambitions spoke of an aspiration to open fifty operating plants across the country, the challenge of building capacity in a volatile market forced a re-think. At HKB, an initially dramatic growth has been replaced by a period of restructuring and consolidation. The impact of the venture, part supported by a USAID grant, will only be sustainable if the commercial proposition is strengthened. The recently announced restructuring suggests that this will not happen.

Whilst increasing the scale of impact is a laudable aim it is as likely to be achieved through indirect as direct impact. A focus on ensuring that relationships with public and private actors continue after the project intervention is vital. With this in mind all PSD initiatives need to consider an exit strategy at the design phase and focus on establishing links with a range of external actors (for example, as at Chetna).

The following sections offer insights drawn from the case studies on how to increase the sustainable impact of PSD initiatives.

Engaging the Poor

Understanding the realities of the lives of the poor is essential to the successful design and implementation of any poverty focused PSD intervention. At the heart of this is a conceptual redefinition of the poor from passive beneficiaries to active participants. Good poverty focused PSD should see the poor differently. They are no longer beneficiaries but customers, valued suppliers and entrepreneurs.

Likewise, the private sector’s attitude to organisations representing the poor is important. Enlightened partners recognise that there needs to be a move “beyond a resource provider function to value added production.” Davies 2011.

This is a very different way of thinking and casts the poor as active participants in their own development. As such, the poor should be centrally involved in the design and delivery of initiatives and be encouraged to take ownership of them.

“The Danone team spread round the country to ask about the eating habits of Bangladeshi villagers. What were their favourite foods? What ingredients did they favour or dislike? How many meals a day did they eat, and when and where did they eat them?” Yunus 2007.

It also casts development actors not as drivers but as facilitators of a process of change.

“Ownership needed to stay with the farmers - this was very clear from the start. It was important that there was ownership and that ownership enabled accountability and representation to active participants.” Interview 11.

This new conception of the poor redefines them as an asset - as people who have the potential to add value to a commercial enterprise and create benefit as a result. This sense of mutuality creates the conditions in which trust can develop, where there has often been little before. This goes beyond simply a better understanding of the poor.

“Producers and milk collectors made commitment to keep to their words regarding milk supply, payment and transparency. As a result, producers made sure that they supply milk on time and allow collectors to use lactometer and proper measuring system.” Interview 15.

Practical Action’s work with beef and dairy farmers in Bangladesh highlights an innovative methodology (Participatory Market System Development) for involving farmers directly in the assessment of the markets in which they participate and defining a set of interventions to address often complex and interrelated constraints to development. This systems based approach, and the resulting holistic approach to addressing obstacles, are covered in more depth later.

Organisation

The effective organisation of poor people remains a key route to increasing their influence and power in market based activities. There are dangers that the active involvement of the private sector in helping the poor organise may create paternalistic relationships and reduce the effectiveness of these organisations in serving the long term interests of poor people.

Private sector initiatives should ensure that, where possible, existing structures and groups are built upon and that clear steps are taken to map a route from adoption to autonomy. Better understanding of the stages of development within organisations of the poor will help in this regard. The path to organisational sustainability is fraught and dangerous and requires patient and committed actors.

The fragmentation and the comparative lack of power of poor people is widely regarded as a key constraint to their effective participation in private sector driven activities. Developing sustainable institutional mechanisms by which the poor can engage effectively with commercial players is an ongoing challenge.

From a commercial perspective, the driver for encouraging the poor to organise is often to enable the aggregation of volumes, to provide a point of access for the provision of technical assistance (e.g. to help assure quality and timeliness of supply), or to sell services or products.

From the perspective of poor people, organisations can play an important role in empowering the individual in commercial relationships - for example: marketing larger volumes collectively to increase bargaining power; increasing access to technical advice and government provision; influencing public services and policy; increasing information flows; and moving up the value chain.

The case studies highlight a range of mechanisms to achieve this - including the development of women’s participatory committees (WPC) in the Bangladeshi garment sector; Shokti ladies’ groups (associated with the Grameen Bank) to distribute yoghurts; and the cooperatives of cotton farmers at Chetna Organics and their associated trading company. In comparison, HKB (Box 5) represents an innovative ‘service centre’ model and Agora (Box 4) an ‘inclusive’ supplier model.
The role and impact of the private sector in developing such institutions is contentious. This is largely due to the perceived risk that direct private sector involvement might undermine the potential to create autonomous organisations. The risk of creating paternalistic or dependent organisations is considered significant and should be avoided but pragmatic solutions are necessary.

“Adoption may leverage the investment required to step up and out of poverty; it can also disempower and reduce farmers to labourers. Adoption with growing responsibility might be a reasonable ambition.” Twin 2012.

Trends towards greater vertical integration in agricultural supply chains, in particular, have focused attention on this risk. It is feared that greater influence or control on suppliers might leave them more exposed to the risks of dependency on a single crop, or reliance on costly hybrid seed varieties and input intensive agricultural practices (see Risk and Vulnerability).

Building organisational capacity is no easy task, requiring significant resources and experience. Traidcraft’s work in Bangladesh highlights the challenge of helping to build strong organisational foundations and synchronise these with emerging market opportunities. GDFL accepted that they had “underestimated the challenge of building capacity” and the need to “grow the local team” (Interview 21). Balancing market opportunity with an ability to supply is crucial to maintaining trust. Whilst it is likely to take years to develop trust, it can be lost in an instant.

Chetna Organic, with a strong and growing farmer base, needs to develop value-added market opportunities at a scale which will both satisfy members (particularly given costs of achieving organic quality standards) and provide the basis for a viable organisation. The delicate nature of achieving this balance is further highlighted in the GDFL case study. Here, despite the history and strength of the Grameen Bank, a commercial hiatus saw the disintegration of their organised distribution channel and a loss of trust in the commercial viability of the venture. Highlighting the challenge of organisation further, the ‘Empowering Women Ready Made Garment Workers Project’, which appears to have delivered relatively positive outcomes, has not managed to embed the WPCs. This raises concerns regarding the sustainability of the initiative. In an impact survey, less than a third of 200 respondents considered the WPCs to be “active and functional” (GFA 2012).

Helping to support sustainable organisation requires an understanding of the non-linear progression of organisations and the ability to tailor support to the needs of the organisation and the marketplace. Figure 4 depicts an indicative series of stages in the development of organisations.

Support to organisations should reflect these stages, in focus and substance, and be prepared to respond to the inevitable ups and downs in fortune (see Accessing Finance and Technical Assistance). Private sector partners need to be prepared to “journey with us” (interview 20) through good and bad times. Building the managerial resilience within organisations required to cope with these inevitable ebbs and flows should be a priority.

Box 7 highlights a PSD example from southern Africa, where an investment in value-added processing sought to make a strategic step change in the fortunes of groundnut farming in Malawi. It demonstrated, and gained strength from, making explicit connections to macro economic priorities in the country, for example diversification from tobacco, food security and adding value.

Understanding the Bigger Picture

In both business and development an appreciation of and consideration for the wider market system in which business is located is crucial. Identifying key obstacles at a micro, meso and macro level, to both development and commercial impact is often the key determinant of PSD success. Explicit linkage to local or national development plans is one route to maximising the engagement with state and other key stakeholders in addressing constraining systemic issues.
Box 7: Afri-Nut

AfriNut is a fledgling business established in 2010 in Malawi by Nastam (a national smallholders’ cooperative), Twin Trading (a leading UK based social enterprise) and EvAgri (a commercial farming company). It builds on many years of work to re-establish Malawi’s reputation as a source of high quality groundnuts. These efforts have largely focused on the need to reduce levels of aflatoxin (a carcinogen prevalent on legumes in SSA) through focused intervention on the farm, in post harvest storage and processing.

To build on the small but significant success in penetrating value added (e.g. Fairtrade) export markets, Afri-Nut was established to make a ‘step change’ in the potential of the groundnut sector. Afri-Nut was intended to: increase the demand for safe groundnuts and therefore incentivise good production practices; further raise the profile of groundnuts and their potential as an important export crop and contributor to greater food security in the region; influence the business practice of other private sector players.

Actively building connections to wider policy debates regarding safe food and economic diversification (from tobacco) have been important elements of the ‘Afri-Nut’ strategy.


Practical Action’s use of the Participatory Market System Development toolkit encourages a much broader systems approach. It promotes a structured, systematic and thorough participatory analysis of the market and its relationship with a range of key actors. It is a good example of the “making markets work for the poor” approach (M4P). Regardless of whether all interventions should adopt such a systematic approach, the context, key relationships, risk factors and policy environment are important to consider.

As a result of this approach, Practical Action, like SLIPP, actively sought linkages to (rather than replacing) public sector delivery of services to the poor. In doing so it increased the impact of intervention and the chances of sustainability. Interestingly, in the SLIPP case study, the threat of political co-option was identified as a key challenge in the Bangladeshi context.

Chetna’s unique engagement with the wider market and direct links with customers provides its members with better understanding of the requirements of the market and how to participate in it. It helps to empower its members.

“They (the buyer) can discuss directly with the farmers and they become more knowledgeable. They don’t have this relationship with other buyers.” (Interview 3)

A more thorough analysis of key risks and budget sensitivities would have helped GDIFL minimise the risks and mitigate the impact of a significant rise in the price of milk. Such an approach may also have encouraged the ActionAid project to focus more actively on the damaging bottlenecks in the judicial system that clearly undermined its effectiveness.

“Often it takes two – three years to get a verdict from the court. This process not only frustrates the workers but also encourage the industry to continue mal-practices.” ActionAid Bangladesh 2012

Box 8: The Importance of Women in Development

“A study (in Cote d’Ivoire) found that the improvements in child health and nutrition brought about by a $10 (US) increase in women’s income would require a $110 increase in men’s income to bring about the same improvements” (Chan 2010)

Effective Private Sector Development: Learning From Civil Society Experience

Gender and Sustainable Natural Resource Use

PSD should prioritise initiatives which seek to address gender inequities and environmental vulnerability, especially when these link to local and national development priorities. These should be built into project design and wider programmatic priorities.

It is widely acknowledged that women’s positive engagement with developmental process can have a disproportionately large impact on poverty reduction and is essential for ‘inclusive growth’ (Box 8). Furthermore, women play a disproportionately significant role in the agricultural and SME sectors. Establishing mechanisms by which women can play a more prominent role in development must be a priority of PSD.

“Studies suggest that formal regular waged work has the greatest transformative potential although paid work outside the domestic domain can also have positive impacts on women’s lives.” Kabeer 2011.

Whilst access to good or decent jobs is a key target, women are hampered from achieving this by wider gender inequities, e.g.

“Women are more likely than men to work as unpaid family labourers or in the informal sector. Women farmers tend to farm smaller plots and less profitable crops than men. Women entrepreneurs operate in smaller firms and less profitable sectors. As a result, women everywhere tend to earn less than men.” World Bank 2012.

Research highlights a number of causes for this disparity. Notable amongst these are the educational gap between men and women, access to resources (e.g. credit, land, costs of business start up etc), the cultural demarcation of men and women’s jobs and the lack of an effective voice for women in decision making.

Consideration of these obstacles and developing strategies to overcome them would seem essential if PSD activities are to contribute to truly inclusive growth.

With one or two notable exceptions, the importance of gender and issues surrounding sustainable natural resources appear to be under-represented in the case studies.

Given the significance of women’s role in agriculture, and the importance that enhancing their control/influence over household expenditure can have on developmental outcomes, there needs to be a greater consideration of gender. Chan (2012) also points to the strong commercial logic for businesses to address gender matters more centrally.

The ActionAid project has a specific focus on women. It highlights a number of key challenges to encouraging women’s organisation and increasing their awareness of their rights. Many of these relate to the gender realities as referred to in Section Two.
“Factory mid level management/owners are not gender sensitive. Most of them are male and are not sensitive about gender issues. As a result the WPC Leaders and members are also facing problems communicating to their midtop level management...

Some women work experienced discrimination in there factory particularly in promotion and salary increment processes...

As the training for this project was held after the usual factory, no successful collective effort is possible. Similarly PEG “Without male counterpart’s contribution in the factory, no successful collective effort is possible. Similarly PEG (Workers Participation Committee) leaders want to be accepted by their male colleagues as well, which they believe, is important to establish female leadership.” ActionAid Bangladesh 2012.

Impact studies relating to HKB also point to the lack of consideration to gender relationships: “People often confuse gender development with women’s development or women’s empowerment.” Krieger et al 2011.

Whilst monitoring the number of women engaging in the PSD initiative is a positive starting point, there needs to be a greater emphasis on the monitoring the outcomes of this participation. The World Development Report 2012 (World Bank 2011) suggests the following factors to help monitor gender progress in this regard:

- Women’s control over resources
- Women’s control over decision making
- Women’s freedom of movement
- Women’s freedom from risk of violence
- Women’s voice and influence in collective decision making

The situation is similar in regard to the vulnerability of poor people to climate change or broader environmental factors. Given that four of the five case studies involve agricultural production, very little emphasis appears to be placed on sustainable agriculture and addressing vulnerability due to environmental factors (a particular challenge in Bangladesh [Box 9]).

Both the SLIPP and Chetna Organic case studies demonstrate an acknowledgement of the risks of climate change and the need to promote a more diversified range of products rather than focusing on a single crop.

Box 9: Bangladesh and the Impact of Climate Change

“With 140 million people, Bangladesh is one of the world’s densest nations and also one of the most vulnerable to the impacts of climate change. People in Bangladesh live precariously close to the risks of cyclones, floods and droughts and more than 100 million people live in rural areas...Bangladesh has achieved recent gains in the areas of economic growth and population control that could be reversed by climate change.”

http://climatechange.worldbank.org/content/bangladesh-economics-adaptation-climate-change-study

Initially we just focused on making existing work/enterprise more efficient. Then we introduced the principle of diversification to reduce vulnerability to a single crop particularly given increased likelihood of drought and flash flood.” Interview 11.

Chetna has gone further and has developed new seed varieties, to help its members manage the risks associated with climate change. However, the relationships between environmental risk, markets and the vulnerability of the poor need to be considered more centrally in PSD initiatives.

Capacity and Partnerships

PSD almost inevitably requires partnerships between organisations to help facilitate the participation of the poor in market based enterprise. The case studies highlight a number of apparently fruitful practical collaborations but few demonstrate or facilitate a more equitable sharing of risks and rewards.

Earlier we observed that good PSD requires an understanding and appreciation of the realities of the lives of poor people, a willingness to redefine the poor as active participants in development, a commitment to embracing the unexpected and an ability to respond to the inevitable challenges that arise when working with poor people in volatile markets.

“We cannot attempt to transform complex market systems using linear thinking and top-down, rigid planning. We need to balance our planning with enough flexibility to adapt to the reactions of the market due to our initiatives or to external events such as economic and political crises, violent conflict, and changes in consumer trends, new technologies, and natural disasters.” Practical Action 2012.

This is a tall order and requires a set of skills that you are unlikely to find in any one organisation, let alone one individual. Good PSD initiatives will almost inevitably require the development of strong and committed partnerships. An appreciation of the role and added value of different actors is a pre-requisite for successful partnership.

The private sector is increasingly seeing value in NGOs - to help organise farmers, to distribute products, to understand the realities of poor peoples’ lives and to innovate.

“Whilst the private sector can help to demonstrate new solutions to existing challenges it is largely the not for profit sector that drives innovation.” Interview 13.

Likewise, NGOs may have to change their mindset and approach to be able to leverage the benefits of the private sector.

“Credibility (NGOs) comes from the ability to understand their (private sector) needs.” Interview 11.

Partnerships between developmental NGOs and business require a considerable investment of time and resources to make them work effectively.

“Whilst these two discourses overlap, there are challenges to overcome to ensure there is understanding among stakeholders of each others’ perspectives.” Smith 2011.

Interview 13.

Practical Action 2012.
One interviewee noted a concern that “NGOs don’t understand the commercial realities of running a business. Without this, many PSD activities would be dead in the water.” (Interview 19). There is clearly a need to increase the commercial acumen of NGO staff to help ensure that commerciality is integrated rather than added onto their work.

Smith (2012) and Vorley (2011) talk of the importance of double facing intermediaries who can bridge the gap between the reality of producer organisations, agencies and the market. “Vorley and others point to the need for double-facing intermediaries that will invest in governance and capacity at the organisational-level as well as increasing productivity or gaining certification at the farm-level.” Twin 2012.

Risk and Vulnerability

A greater emphasis needs to be placed on risk and vulnerability in the design and implementation of PSD initiatives. The poor are often the most vulnerable to sudden stress and shock and generally seek to reduce their risk. PSD should seek to ensure that risks and rewards are more equitably distributed. At the very least PSD should ensure that risks and vulnerability are not increased.

The essence of real commercial partnership is “shared risk and profits”. Whilst it is possible to highlight increased profits/benefits to the poor from the case studies it is difficult to conclude that risks are being more equitably shared between the poor and private sector players, perhaps with the exception of GDFL.

It is important to identify ways in which risk and vulnerability can be written into project design, for example institutional and environmental resilience should be prioritised (intercropping, food crops), raising the capacity of managers to deal with ‘stress and shock’; procurement policies should be changed to better accommodate the poor and provide longer term commitments to support investment decisions; income and customer diversification should be encouraged and there should be greater engagement with and knowledge of markets.

Accessing Finance and Technical Assistance

Given the risks of subsidising inefficient businesses and corrupting efficient markets, support for PSD needs to be as ‘SMART’ if not smarter than other forms of ODA (Box 10). Where possible support should be as commercially-minded as is possible and only offered where mainstream commercial options are not accessible or unreasonably expensive. There should be a focus on initiatives that target structural impediments to change and these should be prepared to evolve as the strength and needs of key actors change.

Finance offered to support private sector initiatives ranges from traditional grant mechanism (e.g. Traidcraft, ActionAid, Practical Action) to debt and equity (e.g. GDFL) – or increasingly blends of these three (e.g. Chetna).

The Chetna case study highlights an interesting progression in the type of support offered to an evolving initiative, with initial grant funding being followed, as the businesses evolved, by debt and then equity capital. It is also an example of an organisational structure (in this case a registered ‘Producer Company’) in which a conventional equity investment is not possible.

The inability of Chetna to capitalise itself reflects a broader challenge faced by many organisations of the poor. A failure to retain profit leaves a business with little opportunity to invest and, therefore, it becomes increasingly reliant on external support. Further work needs to be focused on identifying how this constraint could be successfully overcome.

Another observation from interviews was the inconsistency between the timeframe necessary to build sound commercial foundations and the normal project cycle length. Donors were encouraged to consider longer time frames or funding and facilitate longer term support.

One interviewee (Interview 19) suggested that donors needed to take a more active role in understanding the viability of the commercial activity and the capacity of staff to deliver. An on-site visit was considered an absolute necessity.

Measuring Success

Measuring success is obviously crucial to be able to review and adjust practice. To accompany the growth of PSD interventions a number of new initiatives have sprung up to help promote and develop innovative ways in which impact can be better assessed and learning encouraged.

Box 10: Characteristics of SMART PSD Support

SMART support should prioritise:

- Innovation [that would not be supported otherwise]
- Sectors that are supported in national development strategies
- Initiatives that focus on market transformation or impediments to more inclusive business and not individual companies
- Initiatives that reduce vulnerability of producers - e.g. diversification, encouraging new market relationships
- Co-investment - lenders sharing risk but also reducing the dependency of enterprise
- Initiatives that actively seek linkages to existing commercial sector (e.g. local banks)
- Efforts to build long term capacity
- Financial support that responds to changing commercial viability of the business (e.g. transition from grant to debt to equity)
- Investment not subsidisation of operational costs (e.g. build capacity but not subsidise inefficiency)
- Those that have a clear roadmap to exit
- Projects where partners make a cash commitment (harder to fudge than in-kind)
- Those where commercial partners demonstrate a long term commitment
- Partnerships where more than funds are required; e.g. technical knowhow / partnerships
- Market failures (e.g. transaction costs too high for private sector to engage)
Key themes emerging from these initiatives include:

- An excessive focus on direct impact and simple attribution, which has not helped to encourage an understanding of change processes. There is, therefore, a need for a greater emphasis to be placed on the impact of an initiative at a higher policy or systemic level;
- The extraction of information (usually upward) can reinforce power imbalances between donor and beneficiary;
- The dynamic and complex nature of market systems is often at odds with traditional perceptions of sustainability;
- Outcomes are often dependent on a range of external factors (e.g. climate change and agricultural cycles). Therefore, a key focus of PSD interventions should be increasing resilience and the ability to cope with shocks at an organisational and household level.

Our case studies largely support these findings and also highlight a lack of consistent baseline data necessary to monitor progress and ultimately impact. The Chetna case study is perhaps an exception, where key elements of impact monitored include: market linkages and reductions in dependency; prices and durability of relationships; the strength of cooperatives; expansion of market access for non-cotton food products; access to finance.

Whilst greater clarity of the change that the initiative is aiming to bring about is crucial, it would be unwise to burden new enterprises with excessive reporting requirements early in their development. There is a balance to be struck. The collection of data should not become a distraction from the core business activity. However, a solid baseline will help to ensure that, when appropriate, progress and impact can be measured against an established bench mark.

Section 5: Conclusion

The private sector continues to be a key engine of growth. An acceptance that growth should be inclusive, in order to maximise its sustainable impact on poverty reduction, has reaffirmed the agricultural and SME sectors as key developmental priorities. It has also clarified that the pursuit of inclusive growth requires a longer term commitment - a willingness to accept a broader scope of action (such as consideration of gender and addressing systemic market issues) and a focus on the qualitative nature of business engagement and trading relationships.

Whilst impact at scale is the ultimate aim, the need to develop strong organisations and ensure that PSD initiatives ‘don’t run before they can walk’ is crucial. Building foundations that are resilient to the challenges of the commercial market place - a vulnerability that defines poverty - is of paramount importance. Equally, whilst direct benefits are important, it is often their impact or influence on private and public sector actors and the market that has the more significant consequences. These should be clarified and targeted in advance.

PSD has the ability to unlock the entrepreneurial potential of developing countries but could, if ill guided, adversely affect existing vulnerability and inequality. Inclusive business approaches demand the consideration of vulnerability to environmental and climate changes and gender relationships must also become a key element of all interventions.

The five case studies highlight very different starting points, approaches and outcomes. Each demonstrates areas of strength and areas that could be improved. The hope is that they offer some ideas about how PSD can be shaped to meet the challenge of contributing to sustainable and inclusive growth.

Fig 4 identifies potential ‘Pathways to Impact’ to help maximise the effectiveness of PSD initiatives. It identifies practical ways in which pro-poor activity can be scaled and how initiatives designed to achieve growth can be shaped to have a greater impact on the poor.
Fig 4: Pathways to Impact

Growth to Inclusive Growth

- Reconsider the poor as “partners” not beneficiaries. Ensure their active involvement in the design of initiatives and that their enterprise is recognised;
- Involve the poor directly in designing/understanding the market;
- Consider how procurement policies can be adapted to help engage inclusive businesses more effectively;
- Build capacity of inclusive organisations. Support their autonomy and resist adoption (or identify pathways from adoption to autonomy);
- Consider partnership with NGOs or intermediaries who can help understand the realities of inclusive organisations and the market;
- Share market data & insights with inclusive businesses to help redistribute power in the relationship;
- Set organisational learning goals that are then reflected in staff objectives and workloads;
- Seek practical ways to redistribute risks and rewards;
- Seek small and practical ways in which business can better address gender inequalities;
- Consider environmental vulnerability and ways to enhance resilience;
- Prioritise sectors that are supported in national development strategies;
- Encourage the establishment of incremental growth targets that consider capacity to deliver;
- Invest in building organisational capacity;
- Place an emphasis on wider market analysis and seek to identify key strategic focuses for intervention;
- Identify ‘market pull’ and seek strong commercial partners;
- Develop a clear strategy to engage with private and public sector partners in order to influence their policy and practice;
- Greater information sharing and rebalancing of access to knowledge and information;
- Address systemic gender issues, not just the participation of women.

Pro-Poor to Inclusive Growth

References


### Interview Schedule

<table>
<thead>
<tr>
<th>Interview #</th>
<th>Date</th>
<th>Name</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2 July 2012</td>
<td>Paul Spray, Gareth Siddorn</td>
<td>Traidcraft London</td>
</tr>
<tr>
<td>2</td>
<td>5 July 2012</td>
<td>Maveen Pereira</td>
<td>Fund Manager, RAGS, London</td>
</tr>
<tr>
<td>3</td>
<td>9 July 2012</td>
<td>Donika Dimovska</td>
<td>CHMI</td>
</tr>
<tr>
<td>4</td>
<td>12 July 2012</td>
<td>Aamanur Rahman</td>
<td>ActionAid Bangladesh</td>
</tr>
<tr>
<td>5</td>
<td>17 July 2012</td>
<td>Priya Anant, Annapuna Chavali</td>
<td>Access Health International, India</td>
</tr>
<tr>
<td>6</td>
<td>23 July 2012</td>
<td>Maveen Pereira, Rob Donnely</td>
<td>Traidcraft Newcastle</td>
</tr>
<tr>
<td>7</td>
<td>24 July 2012</td>
<td>Ayan Banerjee, Rob Donnely</td>
<td>CEO, Chetna Organic Agriculture Producer Company Ltd, India</td>
</tr>
<tr>
<td>8</td>
<td>24 July 2012</td>
<td>Clare Clifton</td>
<td>Christian Aid, London</td>
</tr>
<tr>
<td>9</td>
<td>26 July 2012</td>
<td>Dr Sila Sahin Uysal, Katie Colven</td>
<td>Private Sector Development Department, DFID London</td>
</tr>
<tr>
<td>10</td>
<td>26 July 2012</td>
<td>Shruti Upadhyay Sajid Mohammad Sajid</td>
<td>Christian Aid India, Christian Aid Bangladesh</td>
</tr>
<tr>
<td>11</td>
<td>27 August 2012</td>
<td>Kailash Iyer</td>
<td>ICCO India</td>
</tr>
<tr>
<td>12</td>
<td>27 August 2012</td>
<td>Ranjan de Silva</td>
<td>Ex-CEO, Agora Supermarkets, Bangladesh</td>
</tr>
<tr>
<td>13</td>
<td>30 August 2012</td>
<td>Abdur Rob</td>
<td>Practical Action Bangladesh</td>
</tr>
<tr>
<td>14</td>
<td>5 September 2012</td>
<td>Parveen Huda</td>
<td>BIF Bangladesh</td>
</tr>
<tr>
<td>15</td>
<td>5 September 2012</td>
<td>Priya Anant</td>
<td>Access Health International, India</td>
</tr>
<tr>
<td>16</td>
<td>21 September 2012</td>
<td>Eoghan Mackie</td>
<td>MD, Challenges Worldwide</td>
</tr>
<tr>
<td>17</td>
<td>1 October 2012</td>
<td>Mosfequr Rahman (email exchange)</td>
<td>ActionAid Bangladesh</td>
</tr>
<tr>
<td>18</td>
<td>15 October 2012</td>
<td>Corinne Bazina (email exchange)</td>
<td>CEO, GDFL</td>
</tr>
<tr>
<td>19</td>
<td>16 October 2012</td>
<td>Maveen Pereira</td>
<td>Traidcraft, Newcastle</td>
</tr>
<tr>
<td>20</td>
<td>5 November 2012</td>
<td>Corinne Bazina</td>
<td>CEO, GDFL</td>
</tr>
</tbody>
</table>
About Traidcraft
Traidcraft Exchange is the UK’s only development charity specialising in making trade work for the poor. In collaboration with local partners we work to create opportunities for poor people to harness the benefits of trade, helping them to develop sustainable livelihoods. Traidcraft also aims to use the experience of its sister fair trade company, Traidcraft plc, to improve wider trade practices. Traidcraft’s Policy Unit conducts research and advocacy work to improve trade rules and the practice of companies.

Cover Photo: Dulal Miah is one of the vegetable farmers benefitting from the SLIPP project. 60 local organisations will be trained to provide appropriate business support to 1,200 small enterprises. The five-year project focuses on northern Bangladesh, helping poor producers to make a living from fresh vegetable production, fish farming and duck rearing. Photographed by: Abir Abdullah