Development and the Private Sector

MDG-F Thematic Study: Key Findings and Achievements.

Executive Summary

Background

Development and the Private Sector

Poverty in its many dimensions persists stubbornly worldwide, not just in pockets, but in extensive areas. While the private sector can play a role in efforts to reduce poverty, traditional "business-as-usual" models may have little impact. "The private sector undoubtedly has an important contribution to make because of its central role as an engine of growth. But driven as it is by profit considerations, it is unlikely to take a lead in promoting social justice," the 2010 UN/ IDS study on the MDGs and inequalities warned.[i] To be effective, private sector and development interventions need to be multi-targeted in approach and engage multiple partners.

Private sector and development (PSD) is about economic growth as a means to human development. According to the 2008 report *Creating Value for All: Strategies for Doing Business with the Poor*, published by the UNDP Growing Inclusive Markets Initiative, PSD models "include the poor at various points in the value chain: on the demand side as clients and customers, and on the supply side as employees, producers and business owners. They build bridges between businesses and poor people for mutual benefit in the supply chain, in the workplace and in the marketplace. The benefits from inclusive business models go beyond immediate profits and higher incomes. For business they include driving innovations, building markets and strengthening supply chains. And for the poor they include higher productivity, sustainable earnings and greater empowerment."

The MDG-Fund Development and Private Sector Thematic Window

The thematic window supports 12 joint programmes (JPs) in four continents with an allocation of US$63 million. Many of the programmes are targeted at agricultural value chains. Other sectors addressed include tourism, urban settlements and handicrafts. Several programmes tackle multiple value chains, while others take a multi-sectoral approach. The programmes are medium to large scale, typically targeting enterprises (firms, cooperatives or associations) and/or households. Some programmes are approaching 10,000 beneficiaries (Cuba, Viet Nam). Others, while being tightly focused in terms of direct beneficiaries, have a large multiplier effect due to successful policy reforms (El Salvador).

PSD interventions face a set of constraints, including: ineffective regulatory environments, inadequate infrastructure, restricted access to financial products and services, limited market information, and missing knowledge and skills. In addressing these constraints, the joint programmes have employed a very wide range of interventions, including innovation, investment, capacity building, partnership and advocacy.

Achievements and Results

The JPs have achieved concrete instances of increased net income and employment for poor households. For instance, in Cuba, producers saw an increase of 68% in sales of beans and a 55% increase in sales of rice to state produce markets in 2011 compared to 2010. In Serbian rural municipalities, visitor numbers and off-farm income increased 20-25% between 2010 and 2011. In Viet Nam, the indigenous weavers cooperative Vong Ngan won a VND 300 million contract by participating in the October 2012 Hanoi Gift Show.

Just as important but harder to measure is the economic empowerment that many of the programmes have achieved through capacity building, particularly for women. The 12 JPs are all also aiming to influence policy, and thereby leverage greater benefits to huge numbers of pro-poor enterprises either sectorally, regionally or nationally. The programmes are supporting pro-poor business in some of the poorest regions and with vulnerable groups often suffering multiple dimensions of poverty. These groups include women, youth, ethnic minorities and indigenous communities, and some programmes have explicitly targeted such groups.

The JPs have operated in five areas: innovation, investment, capacity building, partnerships and advocacy.

Innovation: adapting products and processes to win new markets

The programmes have found ways to unlock incremental innovation in products and processes. In Upper Egypt, SALASEL worked first with a wealthier farmers' association and only once that work was demonstrably successful were poorer farmers engaged. In Dominican Republic, all seven banana producers' associations have now embraced innovation in the organic and fair trade banana sector. In Serbia, the JP rebranded the countryside with its rich culture as a tourist destination for foreigners, and also for city-dwelling Serbs. In Peru, the programme has helped research, design and produce four new creative industry 'tourist circuits' with an emphasis on craftsmanship, organic agriculture, food, cultural heritage and ecology.

Investment: removing market constraints & upgrading equipment

One of the main obstacles to unlocking needed investments by poor entrepreneurs is not lack of money itself but a risk-averse investment climate. Ethiopia's edible oils value chain had masses of potential – domestic and export - but many dozens of individual actors were too fragmented and mistrustful to undertake upgrading. The programme succeeded in forming new business entities to build up trust - and is now attracting inward investment. Programmes in Serbia and Peru have provided direct support to local partners and producer groups. Other investment successes in terms of removing market constraints include Viet Nam's programme, which developed a partnership with the Dutch Centre for the Promotion of Imports from developing countries that is prepared to invest in the handicrafts sector.

In Costa Rica's Brunca region, efforts are being made to cut red tape and reduce the time taken to register a business from 50+ days to 10 days, as part of the regional competitiveness plan. A new competitiveness index will be monitored down to the cantonal level, exposing all abnormal business constraints.

Capacity building: leveraging the strengths of the poor as producers and consumers

Most of the programmes have offered training and technical assistance to help move producers along the value chain. In Cuba, the programme has improved incomes and food security for thousands of producers, many of them women. In Bolivia, nearly 2,000 small-holder farmers have already gained organic certification and are also improving their own nutrition levels.

In the PSD window, great efforts have gone into entrepreneurship training, from management practices and risk management in Cuba and access to credit in Dominican Republic to small farm management in Egypt and Ethiopia and green product design in Viet Nam. Another example is in El Salvador in the construction sector.

Partnership: combining resources, knowledge and capabilities with others

Programmes have managed to engage dozens of implementing partners at different points of the programme, despite formidable coordination challenges. The private sector has been drawn into programmes; in Turkey, the main textiles business association ITKIB has internalized training programmes into their offer to 16,000 members, thereby ensuring impacts at scale. Egypt's programme support for Post Harvest Centres (PHC) has enabled the Farmers' Associations to develop alliances with the private sector and establish new market linkages through participation in trade fairs like the Farm Gate – Fresh Gate exhibition in November 2010. Chipsey is now sourcing potatoes from one farmers' association for their best-selling crisps in Egypt. In Costa Rica, the programme attracted US$0.77 million from 12 local counterparts in 2012. Among these, substantial resources are coming from four ministries, as well as support from universities, foundations and the Federation of Southern Municipalities. Cement supplier Holcim has been engaged in El Salvador's construction sector, building on its existing social responsibility commitments. In addition, the programme has networked 34 smaller firms into the construction supply chain.

Advocacy: engaging in policy dialogue with government

Business-government relations in many countries are problematic, especially for pro-poor small businesses. In El Salvador, the programme succeeded in capturing the attention of senior policymakers with a carefully targeted set of reforms in land tenure and banking. In Serbia, the government has taken ownership of the rural tourism sector. The programme developed a National Rural Tourism Master Plan and submitted it to the government; in doing so, the JP managed to get the subject of rural tourism firmly on the policy agenda, in terms of economic diversification. The Ethiopian oil seed programme's objectives and implementation modality fit the Ministry of Industry's agro-industry strategy so well that the programme has been seen as an opportunity for the Ministry to turn several of the key recommendations of its agro-industry master plan into concrete interventions.

Conclusions

Most programmes can boast of successes in most of the five areas described above, although some have focused more on some interventions than others. This is not surprising, as the 12 joint programmes differ in many ways, not least in terms of their experience with PSD, their geographical locations and their progress.

Despite this diversity, the core strategy of each programme can be understood by looking at its position on three axes: innovation, complexity and impacts.

The first strategic axis for the programmes is innovation: whether to focus on radical innovation – building a new value chain, as in El Salvador's focus on self-building – or on the incremental upgrading of an existing value chain – such as Egypt's horticulture sector. The choice depends on recognizing the degree of risk-aversion among poor households and the existence of local champions who can demonstrate success.

The second strategic axis is complexity, or the degree of 'joint-ness' in the joint programmes. Some programmes have adopted a relatively focused attack on one or a few bottlenecks in the value chain (Turkey), engaging those partners directly implicated, while others have gone for systemic interventions with multiple partners (Cuba). The difference is between managing a handful of key relationships or many dozens of stakeholders.

The third strategic axis is the type of intended impacts, and, therefore, the achievable scale of beneficiary numbers. Most programmes have tried to achieve *both* direct economic benefits (income, jobs and firm formation) as well as economic empowerment through capacity building. Capacity building efforts in the form of training reach large numbers of beneficiaries (over 8,700 in Cuba), while direct technical assistance or grant support may be limited to 50-100 firms.

Sustainability

Some of the programmes have already made good progress in terms of securing their sustainability, through embedding ownership with relevant ministries (El Salvador, Peru, Serbia) or attracting investor interest (Ethiopia, Egypt, Viet Nam). Donors are increasingly becoming aware that achieving scale in PSD programmes can take a long time - sometimes longer than the programme funding timescale.

Four 'rules of thumb' can thus be discerned about planning for sustainability:

- The better aligned the programme is to government priorities (Bolivia, Costa Rica, El Salvador, Ethiopia, Serbia, Turkey), the better the prospects for continued policy support (until a change of administration, at least);
- Rely on several champions to take forward parts of the joint programme (Egypt);
- The simpler and lower-tech the interventions, the more likely the chance of them being carried on by local business advisers (eg Turkey, Serbia, Viet Nam)
- The sounder the business model, the better the prospects of attracting private finance (Ethiopia).

Recommendations

Green jobs: Identify during the evaluation process which interventions have had the greatest 'green' impacts (generating new 'green and decent work' and improving sustainability along the value chain);

Encourage more South-South networking among peer programmes, either on a supply-chain or geographical basis;

Capture the most successful capacity building techniques developed by the programmes and make them available in user-friendly format;

Understand the lessons from the programmes in middle income countries (MICs) to feed into the post-2015 anti-poverty agenda for MICs; and

Engage systematically with other PSD portfolio programmes.

Access to full report: http://on.mdgfund.org/13l5851

[i] http://www.mdgfund.org/sites/default/files/MDGs_and_Inequalities_Final_Report.pdf