GOOD PRACTICE GUIDE

ENABLING POOR PEOPLE'S ACCESS TO ESSENTIAL PRODUCTS AND SERVICES

Practical guidance, examples and tools on how to effectively engage the local private sector to increase poor people's sustainable access to products and services that can improve their lives.

CZECH REPUBLIC
DEVELOPMENT COOPERATION

PEOPLE IN NEED
CZECH REPUBLIC

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WHAT DO YOU WANT TO LEARN ABOUT?

WHY WE SHOULD ENGAGE THE LOCAL PRIVATE SECTOR	HOW TO CONDUCT MARKET ASSESSMENTS
HOW TO IDENTIFY AND SELECT PRIVATE SECTOR PARTNERS	HOW CAN WE ENGAGE AND SUPPORT THE PRIVATE SECTOR
HOW TO USE MARKET INFORMATION TO INFLUENCE THE PRIVATE SECTOR	HOW TO FACILITATE MARKET LINKAGES AND NEW BUSINESS MODELS
HOW TO BUILD THE CAPACITIES OF THE PRIVATE SECTOR	HOW TO ENGAGE COMMUNITY-BASED ENTERPRISES
HOW TO USE FINANCIAL SUPPORT AND ASSISTANCE	QUALITY CHECKLIST

INTRODUCTION TO THE GUIDE

WHAT CAN IT HELP WITH?

This guide was developed by People in Need (PIN) to provide you with practical guidance, examples and tools on how to increase poor people's **access to products and services that can improve their lives**. This includes, for example, products and services related to **agriculture** (e.g. vegetables, seeds, equipment, veterinary services), **sanitation** (e.g. latrines and soap), and **energy** (e.g. solar lamps or improved cookstoves).

The guide focuses on improving access by supporting **'supply-side'** improvements in **low-income countries**, through **effective engagement of the local private sector** and the use of a **market systems development approach**. 'Local private sector', refers to for-profit actors active at the local, regional or national level in the targeted countries, such as local sellers and retailers, service providers, community-based enterprises, social enterprises and national companies. This focus is taken due to the critical role these actors play (particularly small enterprises) in ensuring products and services reach low-income consumers, and for the important and increasingly recognized development impacts to which these actors contribute.[1]

The guide also demonstrates how these approaches can strengthen the **sustainability, scale and impact** of development interventions. 'What works' is highly context-specific. The guidance provided should therefore **always be adapted to the context in which it is being used**. While the guidance strongly focuses on the agriculture sector, it is also relevant to other program sectors (e.g. WASH, clean energy, nutrition, etc.).

WHAT IS THIS GOOD PRACTICE GUIDE?

Who is it for?

- → Field Officers/Coordinators
- → Project/Programme managers
- → Technical advisors across sectors
- → Proposal writers

Where did the guidance come from?

The guide has been developed by People in Need (PIN), and draws from PIN's programming experience, in-depth interviews with dozens of practitioners, and a review of dozens of written resources, including guidance from Mercy Corps, the Beam Exchange, USAID, World Vision, ODI, the Springfield Centre, Market Links, FAO, and SEEP.

This is one of a series of guides. The other guides include:

INCREASING POOR PEOPLE'S DEMAND FOR ESSENTIAL PRODUCTS AND SERVICES

IMPROVING SMALL PRODUCERS' ACCESS TO PROFITABLE MARKETS

IMPROVING EMPLOYMENT OPPORTUNITIES THROUGH MARKET-DRIVEN VOCATIONAL EDUCATION AND TRAINING

1 Wiggins, S., & Keats, S. (2013) Leaping and Learning: Linking smallholders to markets in Africa. Agriculture for Impact, Imperial College and Overseas Development Institute (ODI); CONCORD Europe (2017), What role for (which) private sector in agriculture and food & nutrition security? Department for International Development (DFID) (2018). Business Case for the Commercial Agriculture for Smallholders and Agribusiness Programme.

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1. WHY WE SHOULD ENGAGE THE LOCAL PRIVATE SECTOR

COMMON PROBLEMS DEVELOPMENT PROJECTS ENCOUNTER (AND THEIR IMPLICATIONS)

Over the last two decades, a range of commercial products or services have been developed that can provide life-changing benefits to people with very low incomes. Yet progress in making these available to poor consumers has been disappointingly slow. In most parts of the world, the private sector or the government provides these products and services. However, in poor and fragile contexts in which development projects operate, markets are often too underdeveloped to meet the demand, and the government often has limited capacity, resources, or incentives to meet these needs. This frequently leads to a situation where people have:

→ **Limited access to and use of products and technologies that enhance agricultural productivity**, such as seeds, agro-chemicals, fertilizers and equipment. This contributes directly to low farming productivity, insufficient food available to a family, and higher vulnerability to the climate and other shocks.

→ **Limited access to and use of good-quality extension services** and veterinary services that provide needed know-how on improved farming and business practices. Extension services frequently reach less than 10% of those who need them,[2] and veterinary services are often inaccessible.

→ **Limited access to and use of technologies and products that can improve people's health and livelihoods** such as latrines, oral rehydration solutions, fortified foods, or energy products (e.g. fuel-efficient stoves, biodigesters or solar lamps).

→ **Limited access to and use of financial services** that enable people to invest into livelihood-improving opportunities. More than 1.7 billion adults worldwide, especially women and those living in rural areas, lack access to formal accounts at financial institutions.[3]

More than 1.3 billion people still lack access to electricity.

Limited access to agricultural inputs limits productivity for many of the world's 500 million smallholders.

At least 2.7 billion people lack access to modern fuels for cooking and heating.

Worldwide, 1 in 3 people do not have access to a decent toilet.[4]

WHY 'TRADITIONAL' APPROACHES TO ADDRESSING THESE PROBLEMS HAVE OFTEN FAILED

Development organisations often take a direct role in trying to address gaps in product or service delivery, referred to as a 'direct delivery' approach. For example, organisations will distribute solar products or provide training services directly to farmers. While these approaches can achieve short-term results, they do not provide long-term solutions to the problems households are facing, as they fail to address the underlying reasons poor households cannot access these products and services.

Some common features of these direct delivery approaches include:

→ **Limited sustainability:** These approaches fail to address ongoing household needs for products and services, as after the NGO programs end they often come to a sudden stop. Households are also **less likely to feel a sense of ownership** over the provided products or services, lowering the chance that they will continue to use them effectively. For example, the International Energy Agency strongly advises against programs distributing solar home systems for free, due to the poor long-term outcomes these programs have achieved.[5]

Farmers negotiate with seed suppliers during an agricultural seed fair in Northern Afghanistan. © PIN archives

→ **Limited scale:** Direct delivery approaches are **unable to reach significant scale** at an acceptable cost, as the impacts are often limited to the project's target areas (and replication in other areas is dependent on additional donor funding). This means that they reach only a fraction of people that could be reached if market actors were more engaged, making them less impactful and cost-efficient.

→ **Contributing to dependency:** The direct distribution of free or heavily subsidized products or services can reduce the degree to which households are confident and motivated to take responsibility and identify opportunities to improve their own livelihoods. For example, during a PIN-led focus group discussion, a participant in an agricultural project who had received free inputs, responded, "we wonder how we will continue our agricultural activities without this support; we ask you to please not leave us" (male farmer in Jamba Caveto village, Angola, January 2018).

→ **Distorting the market:** Direct NGO support and distributions **can undermine efforts of existing market actors** or entrepreneurs and provide uncompetitive advantages to participating suppliers. For instance, the provision of free veterinary services, such as vaccinations, could prevent local entrepreneurs from starting their own business that could provide a long-term solution.

HOW CAN A SYSTEMS APPROACH THAT ENGAGES THE LOCAL PRIVATE SECTOR HELP?

The local private sector is often best placed to stimulate demand and supply the products and services poor people need. This is due to its nature as a local actor with a permanent role in the market and the financial incentive to continue operating after donor-funded projects end. Compared to direct delivery approaches, engaging the private sector can also allow projects to reach greater geographic scale when successful business models are expanded to new customers and regions, and when other businesses follow these models.

This can also allow for a greater diversity of products and services being provided to consumers. Despite this potential, the local private sector, which the majority of low-income consumers purchase from, often **lacks the**

A credit officer discussing a contract for a solar loan, in Cambodia
© Phon Son Kimsan

expertise, resources or incentives to effectively market and expand their supply of products and services to people who are poorer or live in more remote areas, as they often are not viewed as viable customers. By facilitating improvements in the operations and supply capacities of private sector actors, development actors **can improve access to and usage of products and services in a more sustainable way**. For this to be most effective, **it is important for projects to take a 'systems' approach**.

This involves engaging with both public and private actors and supporting them to perform their roles in improved ways and with a **clear vision of how the system will function without our ongoing involvement**. For a practical example and explanation on how market systems development approaches can achieve more widespread and lasting impacts than 'traditional' approaches, see this introductory video by the BEAM Exchange.

2 GFRAS (2012) Fact Sheet on Extension Services; PIN (2014) RAIN baselin in NBeG, South Sudan
3 World Bank Group (2017) The Global Findex database
4 WASH Watch (2018) WASH: A Global Issue
5 IEA (2002) Financing Mechanisms for Solar Home Systems in Developing Countries

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2. HOW CAN WE UNDERSTAND WHY MARKETS ARE NOT WORKING WELL FOR POOR PEOPLE?

For interventions to enable and motivate poor people to start using products or services with positive impacts, implementing organizations first need to identify products and services that are important for poor people's lives, and **understand how and why the market systems for these products and services are not working**. Understanding these causes requires a market assessment, which typically involves the use of a range of research methods that are commonly used in the development sector, such as desk reviews, key informant interviews, and focus group discussions. Detailed guidance on conducting market assessments is provided in 'tools recommended' at the end of this section. The key focus of the market assessment process and tools we can use should be informed by the research questions shown in the diagram to the right. Assessments typically start with information gathering activities at the top of the diagram and move down.

WHAT IS A MARKET SYSTEM?

A market system is the network of buyers, sellers, service providers, rule-makers (e.g. government) and other actors that come together to trade in a given product or service, or influence how that trade occurs (as illustrated in the market system diagram shown example on the next page).

Identify which market systems are important for poor people:

One of the first steps in the market assessment process is to select the market systems you want to research (if these have not yet been selected by a donor based on good research). A market system can be specific to a product (e.g. maize, seeds, latrines) or a service (e.g. veterinary services, coffee processing), and can also be a crosscutting sector (e.g. financial services, labour). Normally several market systems are selected – to mitigate the risks of interventions in one system not being successful, though

THE STEPS AND TOOLS USED IN THE MARKET ASSESSMENT PROCESS

1 WHICH market systems are important to the poor?

- → Desk review of secondary data (e.g. socio-economic research studies, census data, poverty analysis, business environment reports)
- → Needs assessment and livelihoods analysis (e.g. household surveys)
- → Gender analysis

2 HOW is the system not working?

- → Market and value chain mapping and analysis
- → Stakeholder mapping and analysis
- → Gender analysis
- → Consumer research

3 WHY is the system not working? (Root causes)

- → Key informant interviews, focus group discussions
- → Problem trees
- → Gender analysis
- → Barrier analysis
- → Partner assessment tools (and due diligence)
- → Sustainability analysis

Source: adapted from the Springfield Center (2015) M4P Operational Guide it is also important not to select too many and spread the team too thinly. Using a structured selection process based on clearly defined criteria - taking into account the potential impacts on poor people, the economic opportunity, and the feasibility of effecting change, along with other relevant criteria - will provide implementers with the best chance of selecting market systems that can be influenced to positively impact a target group. Guidance on the market selection process, including with developing criteria and a simple scoring matrix to compare potential market systems and help inform selection, can be found here in this Practical Action Guideline from the PMSD Roadmap.

Understand how these market systems are not working and why:

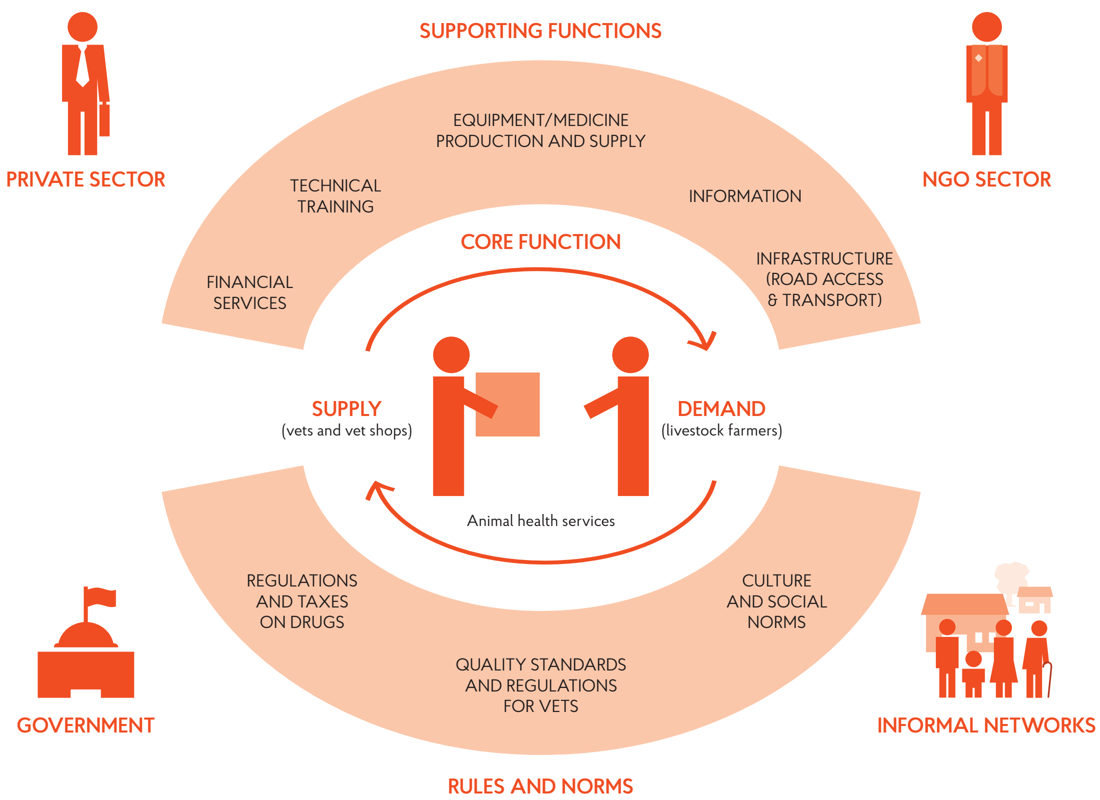
In conducting this assessment, it is important to think of the chosen market as a system, made up of many actors and interactions that influence how the market functions. Mapping the structure of the selected market system using the market system diagram (also referred to as the 'donut'), to provide a visual representation of the overall system we are aiming to influence, is an important step in this analytical process. The donut divides the market system into three parts (shown below), made up of the **core** (where providers and consumers exchange goods and services), the **supporting functions** (such as information and skills), and the **rules** (formal or informal rules which shape behaviour).

For example, the market for animal health services in Cambodia involves suppliers of these services (vets and vet shops), consumers of these services (farmers), and also relies on suppliers of veterinary drugs, financial service providers, along with government actors that impose regulations and taxes, and social norms that influence farmers' attitudes towards these services, as shown below. The donut can be used to structure our analysis of the market system, by helping us identify the various actors involved and the main constraints that are preventing the system from functioning more effectively.

If a project wanted to improve the supply of veterinary services going to livestock farmers, a market assessment can help us answer important questions relating to both the supply and demand for these services: Who (if anyone) is already providing these services on the market? What barriers do they face in reaching poor farmers? What barriers do farmers face in accessing these services (e.g. are they aware of the benefits, can they access them)? Who are the other actors involved in the market and what are their roles (e.g. government, NGOs, financial institutions)? What interventions have been tried in the past, and why did they succeed or fail? What type of changes will most benefit poor people, and how can the project best contribute to this change?

This information is important to know **in order to design our interventions to affect changes to the overall system** – also referred to as 'systemic' or 'system-level' changes – which are much more likely to continue after project support ends. (A useful explanation of 'systemic change' by Helvetas, called *Systemic Approach: What It Is and What It Is Not* can be found here.) On the next page is a practical example from PIN's programming in the Philippines of how a market assessment informed an effective system-level intervention.

MARKET SYSTEM FOR ANIMAL HEALTH SERVICES IN CAMBODIA



Source: Springfield Center (2015) M4P Operational Guide

A local service provider in the Philippines weighs a farmer's vegetable harvest as part of her consolidation services. © Leonides Yape

A local service provider collecting calamansi produce in the Philippines. © Leonides Yape

FIELD EXAMPLE: MARKET ASSESSMENT IN THE PHILIPPINES

Context: The ESIP project (implemented by Helvetas and PIN) supports the livelihoods recovery of poor farming households in Eastern Samar, a fragile context highly vulnerable to natural disasters. A market assessment was conducted in 2014 in the aftermath of recovery efforts responding to the destructive typhoon Haiyan. The assessment was aimed at better understanding the market systems (including specific agricultural sub-sectors) that poor and vulnerable farmers rely on, and opportunities and constraints to improving the way these market systems function.

What did the initial market assessment involve?

The market assessment involved household questionnaires from 450 randomly selected households, 10 focus group discussions with selected households, and 50 key informant interviews with other market actors and players, including traders, input providers, local and provincial government officials and university researchers. A validation workshop was conducted to verify the accuracy of the findings.

What were the main findings?

The market assessment found that the vegetable and livestock subsectors offer important opportunities for poor people to improve their livelihoods and resilience. Despite this potential, farmers' productivity was very low due to a lack of access to, and limited knowledge of, quality inputs, services and technologies. For example, good-quality and affordable seeds for high-yielding varieties of vegetables were limited in availability. A key cause of low productivity was the poor capacities of the private sector (e.g. traders, input suppliers) to provide needed products and services at the local level.

How were the assessment findings used?

The project focused on developing the technical and business capacities of 'local service providers', who were often lead farmers or traders with whom poor farmers interact regularly. The services these actors provide include selling inputs (feeds, seeds and fertilizers) and buying and consolidating farmers´ production. Linking these service providers to larger input supply companies has enabled them to access ongoing technical and business support. This has improved the quality of inputs and advice farmers receive, and made it easier for them to sell their products for a fair price. The article, called Reality Check: Applying a Systemic Approach in a Fragile Context provides further information on this project and its systems approach.

WHY DO MARKETS FAIL (FOR POOR PEOPLE) AND WHY IS THERE A NEED FOR ORGANISATIONS TO INTERVENE?

There are high **costs of doing business** or 'transaction costs'. For example, poor infrastructure such as roads and bridges make it costly for suppliers to reach rural and remote populations. There is **limited or unequal access to information and advice**. For example, suppliers lack information about demand for their products, or lack the required marketing expertise. This can result in shops or service providers not providing products or services, providing them in poor quality, or not meeting the needs of poor customers by providing small or more affordable amounts. There are **inefficient market policies and regulations**. For instance, costly taxes and processes to import needed products, or powerful actors dominating the market. This negatively impacts how competitive and fair markets are. More information on why markets fail can be found in Paper 1 of the Springfield Centre's Perspectives on M4P report.

TOOLS AND RESOURCES FOR MARKET ASSESSMENTS

The Springfield Centre's
M4P Operational Guide - Ch.2: Diagnosis
(especially pages 14 - 20)

A detailed description of the market assessment and analysis process, from the institution that developed the M4P methodology and many of the tools.

Practical Action's PMSD Toolkit

Clear guidance on each of the steps used in conducting market analysis.

ACDI/VOCA Gender Manual & Toolkit

Guidance on how to conduct gender analysis studies; includes guidance and tools on integrating gender into market assessments (pages 53-58).

3. HOW CAN WE IDENTIFY AND SELECT SUITABLE PRIVATE SECTOR PARTNERS?

A crucial step in working with the local private sector on improving the supply of needed products or services is knowing how to identify suitable private sector partners. Typically, the market assessment process (and specifically the market mapping step, explained here in Practical Action's PMSD guide) will provide a good overview of the relevant businesses that are involved in the market systems that we are targeting. The following steps (and tools linked below) should be considered to select suitable private sector partners. (The steps do not always have to be done in sequence and are often part of an iterative process.)

Step 1 – Research potential businesses to understand which private sector businesses are active in a given sector and can be further investigated for partnerships. A range of approaches can be used to identify potential partners. This often includes a combination of desk research, market observation and meetings. These can be done during the market assessment phase. Some useful approaches include:

- → **Direct search and interviews** with selected enterprises active in an area to assess if they align with the projects goals. It is important to research the specific business and sector before these meetings so as to be aware of the company's current or potential challenges and interests. During initial meetings, it is useful to discuss how their business tried to solve certain problems in the past, initiatives they took to improve their businesses, and why these failed or succeeded. **These past or present efforts might be one of the best indicators of their willingness to engage in new practices** in line with the projects goals (this information will also help when conducting Step 2). To ensure that project staff are well prepared for these meetings, a role-play technique could be used, where one staff member plays the company owner.
- → **Information meetings:** the project can present the business opportunity to a number of potential private sector partners at an information meeting. This can be useful when working with micro-enterprises, which can be more time-consuming to reach.
- → **Public advertisement/application process:** having businesses complete an application form can provide useful information for the selection process and can be a test of their interest and commitment.

Step 2 – Assess their suitability: In determining which businesses (and types of businesses) a project wants to partner with, it can be helpful to develop a list of criteria for business selection. This includes considering the types of businesses that best align with the project's objectives and can include factors such as:

- → the businesses' motivations to engage in new (or expand) relevant business activities (e.g. promotion of a new product or service that the project is aiming to support)
- → their technical, management, human resource and financial capacities
- → their history as an enterprise (e.g. reputation, relations with other actors, track record)
- → their 'leverage', or the potential and networks they have to reach scale and influence other actors (for example, in a project to improve agricultural inputs, working with a national supplier who forms linkages and trains local retailers on selling improved inputs can potentially impact more farmers).

WHAT IF THERE ARE NO (OR FEW) PRIVATE SECTOR ACTORS AVAILABLE?

In certain contexts, such as very remote areas, there may be few to no private sector actors operating.
These areas are referred to as having 'thin' markets.
Where PIN works in the central highlands of Angola, for example, there are sometimes no private enterprises of any kind selling products or services in the villages.
In these circumstances, projects may have to look further afield for potential partners, and may have to start by providing more intensive and direct support (for instance, through sharing more of the initial costs for a business to expand its operations to new areas). Further guidance on working in these contexts is provided in this Mercy Corps article Facilitative Approach for Nascent Markets and the Facilitating Change in Thin Markets webinar on the BEAM exchange.

Assessing potential partners against these criteria will help narrow the list of possible partners to those best suited and motivated to meet the project's goals. A useful and simple tool to visually assess the motivations and capacities of potential private sector partners is the Will/Skill matrix (shown in the tools below). It can provide a project with insights into which partners to work with and what types of support will be most effective for these partners. When working with larger businesses, to identify and support other smaller enterprises that rely on these larger businesses (e.g. by buying their products), the larger business (rather than the project) should drive the process of identification and selection of smaller enterprises that will become their partners.

Step 3 – Due diligence checks: A key step before commencing a partnership is conducting due diligence, to assess the possible risks and advantages of a potential partnership. Links to external guidance on this are provided below, and organisations may have their own set of procedures and principles for this process.

Step 4 – Define the type of partnership: An important aspect of this is considering the type of partnership and agreement that will best contribute to the project's objectives (e.g. contract, Memorandum of Understanding MoU, donation), while also aligning with donor requirements. Practical guidance is provided in the table below. Effective agreements clearly define roles and responsibilities, terms, and a workplan. It is important to consider key principles when working to build effective partnerships; this 10 Principles of Partnership Tip Sheet from Mercy Corps provides a list of important principles to consider.

WHAT ARE 'LEAD FIRMS', AND WHY SHOULD WE WORK WITH THEM?

Projects will often aim to work with lead firms. These are businesses that are seen to be leaders in the sector, based on innovation, financial capacities, experience, and business links with other market actors. Projects choose to work with lead firms as they may be more willing to pilot a new way of doing business and influence other businesses in their industry, and can therefore be effective in helping the project achieve greater impacts. More guidance on identifying and working with lead firms can be found in the tools below.

TOOLS AND RESOURCES FOR PRIVATE SECTOR PARTNER SELECTION

Mercy Corps' Private Sector Engagement Toolkit

A selection of practical guidance tools on how to identify suitable private sector partners, including a business sector scanning tool and a firm identification tool.

The M4P Operationa Guide's Will Skill Matrix (page 24)

Guidance on how to use the Will/Skill Matrix to inform your selection of appropriate private sector partners and the types of support they might require.

Mercy Corps' Due Diligence Assessment Tool

Guidance on how to structure research into the risks and compatibility of a potential private sector partner; includes a good criteria checklist to consider.

The Beam Exchange's How to Develop Strong Partnership Agreements

Practical advice on structuring partnership agreements with private partners, based on experience from the GROW program in Liberia.

Action for Enterprise's Methods for Identifying and Selecting Lead Firms, and Structuring and Managing Collaboration.

Practical guidance on identifying and working with lead firms, (including ideas for selection criteria), and advice on how NGOs can develop MoUs with the private sector.

GUIDING PRINCIPLES AND BEST PRACTICES WITH PARTNER SELECTION:

- **Have a clear, specific and credible offer.** Try to first identify a constraint or interest the company has (or may have) and how your project may help address this. Such assumptions need to be checked and validated during meetings. It is important to give details on the type of partnership you want as soon as possible. This should involve **clearly explaining the project goal and why working with you can mean good business for them**. The project's objectives and the goals and strategic interests of the partner need to adequately align to ensure win-win outcomes for all parties.
- As private sector actors have a different logic and language compared to NGOs, it is important to be conscious of your communication style when meeting with potential partners (see here for good tips in Mercy Corps' How to Talk to Private Sector Partners tip sheet). To improve your credibility, and stimulate the interest of the private sector partner, it is important the project team **demonstrate a good technical understanding of the sector and the business**.
- The **process should be driven by self-selection** - selecting businesses willing to invest their own time and resources before receiving project assistance - to indicate their commitment.
  This is why the sharing of information on market opportunities (as discussed here) can be useful, as it generates the companies' interest based on a clear market opportunity. A useful lessons learned document by USAID called Stimulating Client Self-Selection can be found here.
- Interested businesses should **see the opportunity as something for which they are competing**, rather than something being offered by the project. Having an application processes can help with this.
- Identifying and working with several businesses minimises the risk of not achieving project objectives, should some businesses drop out or fail to fulfill commitments.

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4. FACILITATION APPROACHES FOR WORKING WITH THE PRIVATE SECTOR, AND EXAMPLES OF THEIR USAGE

The following approaches are commonly used by interventions aimed at engaging the private sector to improve the supply of needed products or services going to poor people. Most programs will use a variety of the approaches mentioned below, which can also increase their effectiveness. For example, jointly supporting access to finance and entrepreneurship training has been found by the International Labour Organisation (ILO) to be particularly effective for improving the performance of small enterprises.[6]

BUT WHAT ABOUT DEMAND?

Interventions will often support both supply and demand elements. This guide emphasises approaches to stimulate the supply of products or services; however, demand-side factors are also critical to consider. For example, are people sufficiently aware of and motivated to buy a product or service, and are marketing messages or financial products effectively addressing their needs? Enhancing supply without adequate consideration of demand will not result in positive outcomes for the supported enterprises, and as a principle, **market demand should drive what is being sold and produced**. There are a range of effective approaches that can be used to help create demand for products or services. For guidance on how to increase demand, please refer to this **Good Practice Guide** developed by PIN.

The approaches are listed below in order of their risk of being unsustainable and distorting, with activities ranging from high sustainability and low distortion (e.g. information sharing) to low sustainability and high distortion (e.g. financial support). This is based on a diagram developed by Engineers Without Borders. It provides a useful framework for thinking about the types of facilitation approaches that

6 The International Labour Organisation (2015) Small and medium-sized enterprises and decent and productive employment creation

can be used with the private sector, and how to sequence these (starting from the bottom and moving up).

The diagram highlights that before jumping to financial

THE "HAVE YOU TRIED EVERYTHING ELSE?" TEST

Source: Adapted from Engineers Without Borders (2014) Have you Tried Everything Else? Test

support as a solution (which can attract the wrong type of businesses or can cause unsustainable behaviour), it is useful for program teams to **first consider other available options**.

Market traders transporting calamansi produce in Eastern Samar, the Philippines. © Leonides Yape

WHAT IS A 'MARKET FACILITATION' APPROACH, AND WHY IS IT IMPORTANT?

To avoid negatively impacting markets and to ensure our interventions are sustainable, it is important to take a 'facilitation' role when designing and implementing interventions to strengthen and change the behaviour of private sector actors. Facilitation can be understood as creating the conditions for public and private market actors to drive change themselves. **Rather than organisations directly implementing activities and ensuring participants know we supported them, we can bring local actors together to do the work and simply help to build the relationships, fill knowledge gaps, and aid the actions of the permanent local actors**. Through this approach, we ensure the activities can continue without on-going involvement and funding from external organisations. Facilitators can provide support to local actors and help introduce new ideas, practices or business models; however, **this must always be as part of an exit strategy**. This role has implications for the types of competencies that project staff have and requires a greater need for soft skills (e.g. communication, relationship building, coaching etc). It also requires a **strong investment into capacity building of the project teams**, so that they understand what a facilitation approach means, why it is important, and how it can be done in practice, particularly early on in a project. This also includes investing into the capacities of local partners, if they are supporting implementation.

PIN's experience has shown that it can take up to a year or more for this shift in skills and mindset to start emerging. Recruiting project staff with more of a business and private sector background can be helpful in this process. Engineers Without Borders have developed a practical guide for assessing the competencies of staff, called Being a Market Facilitator: A Guide to the Roles and Capacities. They have also developed a useful list of best practices and ideas for facilitation activities. The ILO have also developed a useful learning note on facilitation tactics, and an online role-playing game to test your facilitation skills.

A lack of information about market opportunities is a common barrier to markets and businesses functioning more effectively. For example, a micro-finance institution may only operate in areas closer to towns due to a lack of awareness about demand for their services in more remote areas, or they may be aware of the demand, but are not sure about whether clients can pay for these services. Addressing this lack of information and this perceived lack of business opportunities is a relatively low cost way by which we can encourage private sector actors to adopt a particular business practice or expand their operations into a new geographic area. This market research is different from the overall market assessments (mentioned here in this guide), as it is collecting more detailed information about one specific aspect of the market. **Market research involves the following three steps**:

Step 1: Identify information gaps that are preventing private sector actors from accessing new market opportunities or adopting new practices. Data from initial market assessments and interviews with private sector actors can often reveal these gaps.

Step 2: Support information gathering or market research to address the information gaps. This can be done by: i) using existing secondary information sources; ii) using primary data information from baselines, market assessments and other formative research conducted for a project (e.g. the number of people that expressed a willingness to purchase a product/service) and; iii) using information from other businesses to allow businesses to learn about potential market opportunities (see guidance on exposure visits here). If trying to support a company to work in new areas, it can often be helpful for data to be collected about the demand that exists for a product or service in different geographic locations, and the financial situation of potential customers. To undertake this research, it can often be effective to partner with universities or other actors that understand the sector well (e.g. chambers of commerce, business associations).

Step 3: Disseminate the information to facilitate a change in the businesses behaviour. The way in which the information is shared is important. For example, after a business has seen the improvement in sales from other businesses working with village-based sales agents, they may be more willing to invest into such an approach. It is often a good idea to facilitate a 'business opportunity' meeting. This can be done by inviting a number of potential partners and presenting the new information and the proposed market opportunity in a professional format, followed by a discussion about how participating businesses may act on this new information. The information can also be shared in one to one business meetings, and during capacity building activities for private sector partners.

TOOLS AND RESOURCES FOR MARKET RESEARCH

Global Alliance for Clean Cookstoves
Guidance on Market Research.
Guidance and tips on conducting market research with a specific focus on household energy products.

USAID's End Market Research Toolkit
Provides comprehensive guidance (and case studies) on how market research can be done for the end-market of a specific market system.

A sales agent for solar products in Cambodia with his promotional billboard and solar home system in the background. © Son Kimsan

FIELD EXAMPLE – IMPROVING MARKET RESEARCH METHODS IN CAMBODIA'S RENEWABLE ENERGY SECTOR

Information gap: Nearly half of the Cambodian population (6.9 million people) do not have access to grid electricity. Despite excellent conditions for solar products, small solar companies face challenges in scaling their operations and reaching rural customers with their products. As part of its cooperation with several companies, PIN identified that one problem was a lack of information about villages with high numbers of potential customers. This reduced the effectiveness of the companies' sales and marketing approach, which relied on community meetings to promote their products, thereby decreasing the motivation of their sales teams.

Information gathering: PIN worked with the solar companies to outline the type of information their sales and marketing agents needed in order to improve their targeting, including discussions about their typical customer profiles (e.g. their current sources of energy, common livelihood types). PIN then developed a methodology for conducting market surveys that would more effectively provide this needed information. This involved collecting relevant information from local authorities, through in-person meetings from the commune to the village level. The information collected included how many off-grid households were in an area, their energy sources, and their income sources. For example, areas with high numbers of garment factory workers made good target areas as they had regular income to pay for solar products.

Information sharing: This information was then developed into a simple Excel format and shared through individual meetings and via email with the company staff. Although PIN staff piloted the approach and methodology, relevant company staff were soon trained on how to conduct it themselves.

Result: This initiative resulted in energy companies adopting this information-collection approach into their sales and marketing. This allowed their sales teams to become more efficient with their targeting and helped to increase their sales performance.

4.2 TYPE OF SUPPORT: MARKET LINKAGES AND PILOTING OF NEW BUSINESS MODELS

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Programs aimed at improving the supply of products and services to low-income populations often require private sector actors to adopt new business practices or work in new locations. For example, we might want sellers of agricultural seeds to start providing more advice on how to use these seeds to their customers, or retailers of energy products to provide better after-sales support services to households purchasing energy products. Facilitating linkages between different actors involved in a supply chain can often be an effective and sustainable way to influence private sector partners to integrate new services or behaviours into their business models. These are sometimes referred to as 'embedded' services, as they form part of an ongoing market relationship (an example of these services are provided in the example from Bangladesh).

A range of approaches can be used to facilitate market linkages, with the aim of introducing new products, services and innovations, introducing businesses to one another, helping businesses build trust, and supporting experience sharing. Encouraging businesses to adopt a new business practice or behaviour can also often require capacity building support, and cost sharing. Many programs often support suppliers of products or services to pilot new distribution models for selling their products, particularly as an effective way to reach low-income consumers living in remote areas. For guidance on different distribution models please refer to PIN's guide on improving demand. **Facilitation approaches to strengthening market linkages include:**

Business to Business meetings: so that businesses can agree on the details of new business relationships. These can also involve a field visit, involving smaller businesses visiting a larger business they are considering working with, as a way to learn about the business, increase motivation and build trust.

Trade fairs are a platform for showcasing goods, services, business practices and business opportunities. These can involve businesses sharing their products and business practices, and can also involve end-consumers. Consumers should leave the trade fair with a clear idea about where they can purchase products.

Business forums and networks: can be half or full-day events that bring together a wide variety of actors. These events provide a safe environment for people to discuss their current business performance, the challenges they face, and their ambitions for the future. There should be a focus on solutions, not just challenges. When facilitating larger events it is important to encourage permanent market actors, such as government actors or chambers of commerce, to organise and host the event, as this offers the possibility of sustainability.

FIELD EXAMPLE: IMPROVING INFORMATION FLOW IN BANGLADESH'S VEGETABLE SECTOR

Context and problem: In Bangladesh, vegetable farmers had very low productivity, which reduced their income and access to nutritional foods. Key reasons for this were incorrect agricultural practices (e.g. seed planting techniques, recognition and treatment of problems), due to farmers not receiving good advice and information from their input supply shops.

Market linkage supported: The Katalyst project, implemented by Swisscontact, introduced a new business model for agricultural input suppliers and retailers based on improving the information going to farmers from these suppliers. This was done by helping input suppliers develop an improved retailer training package, aimed at building retailers' capacities and incentives to offer better advice to farmers.

Result: This change in the business model of agricultural input companies and retailers resulted in improved information flowing to about 1 million farmers. This improved farmers' perception and satisfaction with the services provided by retailers and has helped hundreds of thousands of poor farmers increase their production and incomes. The benefits to retailers included greater self-confidence, more emphasis on advice and information, better customer relations and, in most cases, increased sales. Additional information on this intervention can be found in this case study.

A farmer and a seed supplier negotiate a sales deal during an agricultural seed fair in Afghanistan. © PIN archives

FIELD EXAMPLE: AGRICULTURAL SEED FAIRS IN AFGHANISTAN

Problem: In remote upland areas of northern Afghanistan, farmers were interested in buying improved seeds to increase farming productivity, but faced constraints in accessing them locally. Suppliers chose not to operate in remote areas due to high costs of reaching these areas.

Type of trade fairs supported: To facilitate access to seeds for upland farmers, PIN worked with various suppliers to organise seed fairs at the community level. After an initial information-sharing meeting with suppliers active in the region, 5 suppliers out of 11 companies self-selected to participate in the events. As part of the negotiations, and to lower the risks for suppliers, PIN agreed to subsidise some transport costs for suppliers to reach these areas. To ensure a minimum number of sales for the suppliers, PIN also agreed to provide some vulnerable farmers with cash vouchers, which they could redeem from suppliers of their choice at the market events. The price for seeds was not fixed and was negotiated between suppliers and customers.

Outcome: Compared to the direct distributions of seeds done in previous seasons, the seed fair helped kick-start linkages between the suppliers and local communities. Vendors were impressed by the local demand and were able to sell a large amount of seeds not covered by the voucher system. Vendors reported having a better idea about the seed varieties in demand in these areas and found this helpful in planning their sales for the next agricultural season. By involving a large number of suppliers in the events, the project created a sense of competition between them, which had positive impacts on the quality and price of the products displayed.

A village veterinarian provides chicken vaccination services to a livestock farmer in Cambodia. © Jiri Pasz

FIELD EXAMPLE: FACILITATING MARKET LINKAGES IN CAMBODIA'S LIVESTOCK SECTOR

Context and problem: In rural Cambodia, productivity and incomes are low among smallholder livestock farmers due to limited access to veterinary services and advice on livestock raising practices. This results in high levels of animal mortality. PIN's CLIMAD project focused on improving poor farmers' access to veterinary services by improving linkages between national veterinary companies, village-based veterinarians and smallholder farmers (the customers of vets).

Type of market linkages supported: The project first conducted formative research to identify weaknesses in the provision of services being provided to farmers, and the services being provided to vets by the veterinary companies they purchase products from (the reports from which can be accessed here). One key assessment finding was that vets had limited access to business and marketing skills (with many previous projects only supporting vets' technical skills), which prevented their business growth. At the same time, national companies selling veterinary products (e.g. vaccinations, medicines for treatments) were interested in scaling up their operations and business relations with village vets who bought their products. The project supported linkages between vets and companies by providing the companies with training-of-trainer support to improve their vet training modules (and to focus more on business topics), which also helped improve their business relations with the vets. Improved linkages between vets and livestock farmers were supported through promotional events at the village level, and through a user-pays approach to training, where farmers paid a small fee (approx. 15-50 US cents each) to join technical trainings provided by the vets. This helped establish an ongoing market relationship between vets and farmers and improved the quality of training outcomes, compared to trainings fully subsidised by the project.

Outcomes: The market linkages resulted in improvements in the quality and quantity of veterinary services provided. Companies began providing vets with more advisory services on how to run and grow their businesses. The outreach of fee-for-service animal health services also increased and reached poorer farmers, leading to improved livestock productivity. A video showcasing the project's approach can be found here.

GUIDING PRINCIPLES AND BEST PRACTICES WITH SUPPORTING NEW BUSINESS MODELS:

Utilise an adaptive management approach: Working with private sector actors to adopt new ways of doing business is dynamic and conditions change quickly. The use of adaptive management approaches are needed, starting with the small scale piloting of new approaches and learning and adjusting accordingly. The Adopt-Adapt-Expand-Respond AAER framework is a useful resource to inform this type of approach. It provides implementers with a framework to manage and measure the extent to which the new behaviours and practices introduced by a project are owned, driven and spread across an industry by private partners themselves. Mercy Corps' learning note called Managing Complexity, Adaptive Management at Mercy Corps provides practical guidance on how to integrate an adaptive management approach into our work.

Masons from a biodigester company finishing their constructon of a new biodigester in Western Province, Zambia. © PIN archives

A family in Cambodia with their newly installed biodigester. © Anna Gorecka

4.3 TYPE OF SUPPORT: CAPACITY BUILDING OF PRIVATE SECTOR ACTORS

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Projects aimed at developing the private sector to better supply poor people with products and services, often support these actors with new knowledge and skills. In development contexts, businesses (especially small enterprises) commonly lack the skills and knowledge to develop clear business models and plan effectively. Some important steps to consider, include:

Step 1: Assess the capacity-building needs:
It is important that this is as participatory as possible, so that business owners are involved in identifying their own needs. **This helps ensure commitment** to future capacity building support. The Will/Skill matrix (which may have been used during your selection of partners) can be helpful when identifying the types of capacity building support a partner may need. If a partner has low motivation to support a new business practice, (e.g. selling a new product), a project may focus its activities on improving interest in this (e.g. through market research or exposure visits). If the partner has low skill (e.g. they are strongly interested in selling a new product, but lack the marketing skills to do so), projects should examine which specific skills are lacking. Conducting a business capacity assessment using a scoring system can be a useful way to assess this. This assessment checklist tool can be adapted and used to assess the key competencies of enterprises

WHO SHOULD PROVIDE TRAININGS TO PRIVATE SECTOR ACTORS?

Wherever possible, programs should aim to **facilitate capacity-building activities through local actors**, rather than providing them directly, to ensure long-term sustainable access. Facilitating capacity building involves **identifying ways that local market system actors can deliver the capacity-building instead of project staff delivering it directly using NGO staff**, who often don't have firsthand experience with running a business. For example, in Cambodia, PIN worked with national veterinary companies to provide business-related trainings to their clients (village vets), rather than providing these business trainings directly.

Other examples of market system actors who could provide trainings include private sector businesses working in the targeted sector such as agricultural input dealers, processing factories or financial service providers; government agencies; or Business Development Service (BDS) providers. BDS providers are often consulting firms or individuals (but can also be non-profit, government actors, or industry associations), that provide services to improve the performance of an enterprise, its access to markets, and its ability to compete. In this case, the project shifts to adopting a more advisory role, and may involve providing support for curriculum development, facilitating 'Training of Trainers' for staff delivering the training, or helping to cover some of the costs of delivering the training.

Project teams may find it useful to use a mix of actors to deliver the required trainings. For example, the basics of business and financial management (such as record-keeping) can be delivered by the project team or by a business development service provider (as this may be challenging for some private sector actors to provide). However, topics that are specific to the particular market system, or for which there is a private sector actor with existing expertise, can be delivered by that private sector actor. For example, an agricultural input distributor may be best placed to provide (and pay for) training to input retailers on marketing strategies, or microfinance institutions may well be best positioned to provide training on financial management.

Who should pay for training? When facilitating trainings, trainees should be asked to contribute to the costs of the training or to at least cover their own transportation, accommodation and/or subsistence costs during the training, as a way of demonstrating their commitment.

over time. It is best to do this assessment at the start of a relationship with a new private actor, and at the location of the business, to allow for direct observation of certain practices, such as record keeping. Important topics that can be considered in the capacity assessment are: i) Legal status; ii) Type of business activities; iii) Business planning; iv) Record-keeping; v) Business relationship with suppliers and other service providers; vi) Marketing practices; vii) Access to information; and viii) Business assets.

Step 2: Develop and implement a capacity-building plan:
This should include information about each type of capacity the program is aiming to improve, who will be trained, how they will be trained and how this will be phased and monitored. This can also include information about the (financial or material) contributions the businesses will make, how these contributions will be monitored, and what steps will be taken if these contributions are not made. A template for a capacity building/firm improvement plan focused on businesses behaviours and practices can be found here.


Staff from a solar company explaining how to use a solar home system to a new user. © Phon Son Kimsan

Step 3: Monitor the capacity building activities:
This is very important, and will help identify where there are still gaps, and where further capacity-building is needed. **Successful programs are able to adapt their capacity-building support.** A good practical tool to use for monitoring impact is a core competencies checklist. This Business Practices Assessment tool developed by World Vision can be adapted and used to monitor key competencies of enterprises over time (with a specific focus on community-based enterprises).

The capacity-building support will depend on the type of business and their needs, and can often involve a range of different activities:

→ **Exposure visits** can be effective to support businesses to consider a new business innovation or practice (for example a new product, or marketing strategy) by spending time with another similar 'role model' business, and can enable learning-by-doing or informal learning through discussions (often more effective than theoretical classroom learning). Establishing relationships between counterparts can also turn into a form of mentorship for the business if the relationship progresses positively. Linked here is a useful resource from EWB called Exchange Visits – a Guide for Market Facilitators that describes in practical terms how to plan and implement exposure visits.

→ **Business and financial management training** is often required, particularly for micro-enterprises, to provide businesses with a basic foundation of knowledge and skills. The curriculum should be adjusted according to the needs of participants. The general training usually combines some business planning (the BMC tool or Lean Startup approach shown below can be helpful for this) with financial planning, accountancy basics, marketing and strategic planning. Training should be as practical as possible with exercises that reflect the real world environment that participants operate in. For example, marketing training should include practicing field market research approaches. Preferably, the exercises should have participants working directly scenarios from their own businesses. If being provided by project staff, appropriate capacity-building should be provided to them before delivering the training.

TOOLS AND RESOURCES FOR CAPACITY BUILDING

The Community-Based Enterprise Development (C-BED) tool
Low cost, and easy to implement training program to support community businesses with joint business planning (available in a range of local languages).

Business Model Canvas (BMC)
A simple and flexible methodology for supporting business start-ups and microenterprises, includes a downloadable template for business planning. A free online course can be accessed here.

Lean Startup
Explanation on the Lean Startup methodology and links to other resources, this video provides an introduction to the approach.

→ **Coaching and mentoring**, often done directly by project field staff, plays a key role in changing the practices of private sector actors. **It is a critical way to build trust with the business owners.** Coaching can support a number of objectives, including the sharing of information, support with problem-solving and motivation, and informal training on business skills. From the start, it is important that both the coach and the business owner have a shared understanding of the relationship and respective responsibilities, and for this support not to build dependency.

→ **Expert advisory support** provided by highly qualified experts with extensive experience on a specific technical or business-related topic may sometimes be required. For example, legal consultancy can be extremely beneficial to businesses signing important contracts, as can expert business advice with reviewing and improving business plans intended for submission to a financial institution.

4.4 TYPE OF SUPPORT: FORMING OR SUPPORTING COMMUNITY-BASED ENTERPRISES TO SUPPLY PRODUCTS/SERVICES

Supporting community members to cooperate as group enterprises can facilitate improved access to a range of products and services. Some potential ways that community-based enterprises can be supported to improve the supply of needed products or services are:

→ **Coordinating the collective purchase of agricultural inputs** (e.g. seeds, fertilizer, pesticides) in bulk, allowing groups to negotiate a better price from dealers or reduce the cost of transportation. In some cases, groups can negotiate the supply of inputs on credit, to address the constraint that members face in having capital to buy inputs. Groups can also become providers of inputs, by becoming sales agents for agricultural input suppliers.

→ Groups can also play a role in **facilitating access to agricultural extension services**, by coordinating access to training or other services by group members, the government, or private sector actors. This can lower the costs of these services. For example, in Cambodia, groups of smallholder livestock farmers coordinated with vets' to conduct joint vaccinations of their livestock at a specific location, bringing down the costs they had to pay per vaccination through a reduction in the vets transport costs.

→ Machinery can be **purchased jointly and shared by the group**, when the cost to an individual farmer is too high. For instance, a water pump could be purchased use rented out to group members. This is much more likely to be effective if the group uses its own resources to buy the equipment, than if it is donated by a project. Donated machinery has often not resulted in sustainable outcomes, as discussed in this review of evidence by the Overseas Development Institute, called Farmer Cooperation and the Role of the Donor Community.

A farmer drying his cassava produce in Eastern Samar, the Philippines. © Leonides Yape

GUIDING PRINCIPLES AND BEST PRACTICES WITH SUPPORTING PRODUCER GROUPS:

- **Clear incentives and benefits:** Forming new groups always present a risk for sustainability. A critical factor for sustainability is that **members see a clear incentive and benefits** if they are to continue to participate actively in the group (often these are economic incentives, though they can also be social). **When groups are formed solely to achieve project goals, such as receiving training, they are much less likely to be sustainable.**
- Groups need to understand that they are an independent entity with an economic purpose, and not dependent on an NGO. Particular emphasis should be put on making sure this is clear to all members.
- **Activities and plans should be locally driven:** The least successful types of organizations are those imposed from outside and based upon donor-driven criteria, (for example, size, organizational rules, membership rules) which do not resonate locally, have limited internal capacity and broad and ill-defined objectives. More successful results have been observed from organizations which have strict entry requirements and are created by local entrepreneurs to address a specific need.
- **Self-selection for group membership.** Implementers should try and use self-selection approaches (based on members' own motivations and interests to join) as much as possible, rather than having the project select members.
- **Start with small activities (and groups) and establish group trust:** Producer groups do not need to perform all the market functions or offer all types of services to members. **It is usually best for groups to start with simpler and more manageable initiatives**, and expand on these over time.

Due to the risks involved regarding joint management of machinery (e.g. internal conflicts, servicing costs), it is advisable to first look for any existing service providers whose support to farmer-groups can be strengthened before supporting such an initiative (e.g. strengthening tractor hiring services as opposed to supporting joint tractor purchases).

→ Groups can also help **facilitate access to financial services** by using their own funds to provide loans to other members, in the form of savings groups. These can provide a secure place to save; the opportunity to borrow in small amounts on flexible terms; and a network of support and solidarity. Through information sharing and advice, groups can also help facilitate access for their members to services from formal financial providers such as banks and MFIs, and to other products and services (e.g. energy products).

Additional guidance on the practical steps projects can take to support community-based enterprises can be found in this good practice guide developed by PIN on supporting farmers access to markets.

TOOLS AND RESOURCES FOR SUPPORTING COMMUNITY BASED ENTERPRISES

Saving Group Methodology and Training Curricula

A flexible savings group methodology from Microfinance Center website developed for LEarning, Teaming up and Saving – SAVing groups for Employability and Empowerment (LETS SAVEE1) project.

Catholic Relief Service's Preparing Farmer Groups to Engage Successfully with Markets

Field guide written for practitioners with practical advice on strengthening farmer groups. Tool # 2 is a checklist that can be used/adapted to track progress in key skill sets being supported.

World Vision's Producer Group Business Practices Assessment Tool

Assessment survey tool that can be adapted and used to monitor key competencies of community-based enterprises over time. Covers leadership, governance, strategy, finances, organisational structure, and planning.

FIELD EXAMPLE: SUPPORTING WOMEN-RUN BUSINESSES TO ACCESS LOANS IN ETHIOPIA

Problem and context: Women living in the urban slums of Addis Ababa, Ethiopia often lack the collateral to take financial loans from formal institutions. This prevents them from starting or developing micro-enterprises.

Type of community-based enterprise established: The Urban Social Protection in Ethiopia project, implemented by PIN and partners, supported the establishment and strengthening of 608 small women-run businesses. Women were supported in forming self-help groups and pooling their savings, and were provided with a range of business and financial trainings. The support targeted the most marginalised members of urban communities, who were unemployed and often lacked financial resources to support their family's basic needs. The improved savings enabled the groups to provide loans to members for business investments. These included investments into sewing, laundry and food production businesses.

Result: The project's external final evaluation found that 98% of the self-help groups established were still functional four years after establishment. Better access to financial services and improved saving habits were reported by the women as the most beneficial aspects of their involvement in these groups. The self-help groups were also found to contribute to important changes in the behaviour and self-confidence of the women involved. Additional information and a video on the project can be found here on PIN's website.

A women's group meets to receive training and discuss their cooperation, in Addis Ababa, Ethiopia. © PIN archives

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Access to finance is often a key barrier to improving the supply of products or services, and can be a challenge faced by various actors along a supply chain. Financial support can be used to lower the risk of a private partner trying out a new behaviour or innovation, and to expand products to new areas. Finance can also be used to encourage consumers to adopt a new product or service (as this is aimed at strengthening demand, guidance is provided here in this guide). Financial support can be used in the following ways:

FIELD EXAMPLE – SUPPORTING LOCAL SERVICE PROVIDERS ACCESS COMMERCIAL LOANS IN THE PHILIPPINES

A female Local Service Provider buying and consolidating fresh banana from farmers in the Philippines needed capital to buy a larger transport vehicle that would enable her to transport more produce and increase her income. To support the service provider with this goal, PIN met with the MFI to show them the viability of the service provider's business model. This included sharing the monthly sales and revenues they were earning from providing these services to farmers. This gained the interest of the MFI. PIN then facilitated a meeting between the MFI and the service provider, and informed the service provider of how to prepare for this meeting. The meeting resulted in the MFI offering a loan to the service provider for the vehicle investment. The new transport vehicle, which has a higher load capacity, increased the consolidation capacity of service provider by 30% from 300 to 400 kilos of fresh banana per load. The increased consolidation and trading capacity of the service provider benefited more farmers through the generation of additional income. Further, after three years of amortization, the vehicle will be owned by the service provider herself, ensuring the continuity of her business and services in the long run. This will also play a role in convincing the MFI to extend its loan services to other agricultural service providers and market actors in the banana sector.

- **Supporting enterprises to access credit:** This includes helping enterprises to understand the different funding sources available and how to prepare applications in a way that aligns with the requirements of the lending institution. This could include funding from local banks and Micro-Finance Institutions, but also loans from more innovative funding sources such as peer-to-peer lending schemes, such as Kiva. In some cases, facilitating support to these businesses on how they should approach and articulate their business opportunity to financial institutions, and working with the financial institution to explain to them the viability of the enterprise, can be helpful.
- **Cost sharing and subsidies:** Building the capacity of businesses to provide new products and services to poor people can be facilitated through cost share mechanisms whereby each party (the implementing organization and the businesses) pay a percentage of the costs for pilot activities. For example, an organisation might cover some of the costs (e.g. training costs, costs of promotional events) involved in setting up a new retailer network in a remote area. 'Smart subsidies' can be defined as subsidies that encourage partners to do something they likely would not be doing on their own, because they see it as too risky. **These should always have a clear exit strategy.** For instance, a 'smart subsidy' might cover some of the costs for an agricultural input supply company to develop new and smaller packaging for their seeds, to test out if there is a viable market for these seeds, which could reach underserved populations. For a list of examples of smart subsides, refer to page 47 of this USAID guide called Integrating Very Poor Producers into Value Chains, page 52 also includes a sample MoU for a cost-sharing agreement with a private sector partner.
- **Results based financing:** These approaches provide money to businesses based on their achievement of specific targets agreed upon in advance (for example,

A solar customer making a payment at a financial transfer service provider in Cambodia. © Phon Son Kimsan a solar company would be paid a certain commission for every 50 solar systems that they sell). In this way it works to incentivise businesses to invest into and scale up their operations, and provides businesses with the flexibility to decide how to spend the money. It has been particularly effective in the renewable energy sector. A useful lesson learned report called Driving Markets to Scale by Endev on results-based financing is found here.

→ **Capital and technical support to financial service providers:** Financial support can be provided to financial institutions as a guarantee fund or for a revolving fund, to support the piloting of a new financial product. This can help to reduce the risks a financial institution faces in providing financial services to businesses that previously may not have been eligible for loans. Facilitating technical support to financial institutions to design and test appropriate financial products can be a useful way to improve their capacities and interests to extend services to new target groups.

Staff from a youth-managed leather enterprise in Ethiopia and some of their products. © PIN archives

FIELD EXAMPLE: FACILITATING ACCESS TO FINANCE FOR YOUTH-RUN LEATHER ENTERPRISES IN ETHIOPIA

Context: Youth-run small enterprises making leather products in Ethiopia were unable to meet the collateral requirements for accessing loans. This prevented them from purchasing needed equipment and materials to expand their businesses.

Type of financial support provided: PIN first worked to analyze and understand the market for financial services for small enterprises, and the constraints that MFIs faced in providing services to these businesses. Based on this assessment, PIN established a credit guarantee fund through a grant provided to a leading micro-finance institution. Providing this grant allowed the MFI to lower the collateral requirements for loans provided to small leather enterprises. The MFI used this support to manage a revolving fund specifically tailored for loans to youth-run small enterprises.

Result: The new loan product offered by the MFI enabled leather enterprises easier access to finance, without the usual loan collateral requirements, to make needed investments into their businesses. The fund is still operating 5 years after its establishment, and has reached more than 22 leather SMEs with loans.

GUIDING PRINCIPLES AND BEST PRACTICES RELATED TO FINANCIAL SUPPORT:

Be strategic and have a clear exit strategy: Any provision of financial support should be carefully designed so that the programs can be scalable and sustainable without it. This involves first looking for other options that might motivate or assist a business to practice a new behaviour. **It also involves developing a clear vision for how the market system will function sustainably in the long term, when the project's financial support is no longer there**. The Who Does Who Pays matrix (here) is an effective tool to develop a vision and exit strategy for a project intervention. This could include , for example, being very clear about exactly how much market actors will receive and for how long, and working with them to plan their businesses for when the subsidy ends.

Consider the risks of market distortion: Allocating financial support often has a higher risk of market distortion than other forms of support. For example, if a project pays a supplier of latrines a subsidy that enables them to halve the costs of the latrine, other sellers of latrines not supported with this subsidy will face difficulties in selling and marketing their products, and may go out of business. For this reason, **it is important for implementers to assess these risks and develop a plan to mitigate them** whenever deciding to provide financial support.

Be clear about the purpose of the financial support: If the goal of the support is to stimulate an investment into a new practice (for example, selling a product in smaller packaging), then it should be designed accordingly.

Try to work with financial institutions: Rather than disbursing funds directly, working through financial institutions to manage and disburse project funds to selected businesses can help make the results more sustainable, and can help make commercial services available to more businesses in the sector (as the financial institutions can promote it through their networks).

Close coordination with government and other development partners: This is important to minimize disruptions to projects' market-driven approach and results. This should occur during project design and implementation.

Consider targeting more than one part of the supply chain: Barriers to accessing products or services are often caused by failures of a market across the supply chain, and will not always constrain the final seller of a product or service. Bottlenecks sometimes occur higher up the supply chain. For example, suppliers of biogas stoves may not have enough capital to purchase and supply biogas companies with stoves, which prevents biogas companies from selling biodigesters. Addressing capital constraints for these other actors can sometimes be an effective way to improve access for end-consumers.

TOOLS AND RESOURCES FOR FINANCIAL SUPPORT

Action for Enterprise´s Managing Collaboration with Lead Firms (pages 9-12)

Guidance on how to structure cost-share agreements to ensure sustainability, and practical examples of items projects should and shouldn't pay for.

Practical Actions PMSD Step 3, Strategic Design and Planning (pages 18-22)

Guidance on the use of smart subsidies, including common risks and ways of mitigating against them.

The Springfield Centre's M4P Operational Guide - Ch.3: Vision (especially p.21 - 24)

Useful tips on how to go about setting a realistic vision for the functioning of your market system.

RAF Learning Lab and Mastercards' Better Together: Last Mile Partnerships for Smallholder Finance

Lessons learned and guidance on facilitating business partnerships with financial institutions to support smallholder farmers.

QUALITY CHECKLIST - THINGS THAT PRACTITIONERS SHOULD LOOK OUT FOR

What is this checklist? This practical checklist was developed to assist you to consider important steps when planning and implementing initiatives to engage the private sector to enable access to products or services. You can use it during the project design stage or during implementation.

Quality Checklist - Enabling access to products or services by engaging the local private sector			
Have you conducted a market assessment to properly diagnose the 'system-level' constraints your target group faces in accessing needed products or services?	Y	N	N/A
Have you made sure to amend your communication style when meeting with any private sector partners? (see here for good tips on this from Mercy Corps)	Y	N	N/A
Have you made sure to assess the suitability of a private sector partner, and the suitability of your planned support to them? (the Will/Skill matrix is a useful tool for this, page 24).	Y	N	N/A
Have you made sure to conduct due diligence of your private sector partners, to assess the risks of a potential partnership? (some useful guidance from Mercy Corps is provided here)	Y	N	N/A
When introducing a new business model or practice, have you made sure to assess relevant interventions that have been tried previously (and the success or failure of these)?	Y	N	N/A
Have you made sure to consider and mitigate any health risks from products that are promoted (e.g. if promoting pesticides or disinfectants, ensure their appropriate and safe use is promoted)?	Y	N	N/A
Have you made sure to first pilot your types of support before you scale them up?	Y	N	N/A
Have you made sure to coordinate your planned activities with other market or non-market actors (e.g. other NGOs working in the same sector)?	Y	N	N/A
Have you considered how to integrate a gender-sensitive approach into your interventions? (Christian Aid's guide has useful guidance on gender-sensitive market development approaches)	Y	N	N/A
Have you made sure, that as much as is possible, you are only playing a facilitation role? (consider EWB's list of best practices, and this role-playing game by ILO)	Y	N	N/A
Have you developed a vision for sustainability? (the Who Does Who Pays analysis is a useful tool for this, please see some guidance is linked here, especially pages 21-24)	Y	N	N/A
Have you ensured that any financial support has a realistic and clear exit strategy?	Y	N	N/A
Have you allocated resources for capacity building to the project team on facilitation approaches, and made sure that they are aware of the project logic?	Y	N	N/A

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