Helpdesk Research Report: Engaging Private Sector Actors in Delivering Development
01.03.11

Query: Please identify best practice, advantages/disadvantages and lessons learned from the different approaches bilateral (and multilateral if necessary) donors use to engage private sector actors in delivering development. Approaches we are particularly interested in include: enterprise challenge funds, Markets for the Poor (M4P) and the M-PESA program in Kenya.

Enquirer: AUSAid

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2. Private Sector Development: Lessons Learned
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1. Overview

Donors, both bilateral and multilateral, are currently using a range of creative approaches to encourage private sector actors to participate and invest in activities that help deliver development. This query begins by examining some of the advantages/disadvantages of these approaches, before identifying some lessons learned and best practice.

Advantages/disadvantages
Donor initiatives that engage private sector actors can help provide better quality jobs, goods and services, but also innovative solutions to development challenges. As DFID's Private Sector Development (PSD) strategy notes, "more accessible and competitive markets enable poor people to find their own way out of poverty by providing more real choices and opportunities. Markets that function well have wider economic benefits too. They encourage firms to innovate, reduce costs and provide better quality jobs, goods and services to more people. Wealth creation is at the heart of development. The evidence is clear – increasing incomes amongst the poor leads to better educated and healthier poor people" (2008, p.5).

Several PSD initiatives have succeeded in improving access - both access for poor people to economic opportunities, as well as access for businesses to markets, finance and skills. There are various examples of donors providing incentives to the financial sector to try new ways of bringing financial services to rural areas and "banking the un-banked", for example: DFID’s Financial Deepening Challenge Fund (FDCF); the Fiji Rural Banking service, a partnership between UNDP and the commercial bank, ANZ Bank; and Kenya’s Financial Sector Deepening Trust (FSD).

A recent impact assessment of the latter initiative by Stone and Hayes (2010) concluded that the FSD has contributed in a significant way to the development of an improved enabling
policy and regulatory environment. At the meso level, the programme has helped to build significant capacity in the support service market and has also contributed to the shift to a more client-oriented market. FSD’s support has also helped to enable the transformation and institutionalisation of key providers within the sector, while facilitating the survival of institutions that were under threat. The report also concludes that all levels of FSD activity ultimately contributed to sustainable improvements in livelihoods of poor people through reduced vulnerability to shocks, increased incomes and employment.

There is also evidence that engaging private sector actors can help small and medium-sized business develop stronger business linkages and improve market development. For example, a project funded by DFID’s Business Linkages Challenge Fund (BLCF) in the Dominican Republic helped fund CONACADO, a small cocoa growers association, to find unique market niches guaranteeing a reasonable price level to its members. The project helped CONACADO to improve the quality of cocoa produced, which in turn has developed the market for new types of ‘gourmet’ cocoa. Better quality of cocoa wine and jam is also produced as a by-product by the small-grower women’s group. In addition, a formal transport system for cocoa beans has been established, thus creating more employment for truck drivers (DFID, 2007).

Where the risk is shared with donors or other development partners, business initiatives tend to be more innovative and involve business plans that are transformational, for example, better access to products and services by the poor or increased employment and growth in target areas. For example, an innovative mobile-phone based system, M-Pesa, has been piloted and developed in Kenya to transfer cash. An evaluation of the pilot example in the Kerio valley found that the M-Pesa system has had a ‘multiplying’ effect on the local economy and empowered people to prioritise and make choices – “Use of a process which required beneficiaries to interact with new technology transformed them from benign recipients of aid to the active participants in a process. The provision of phones, SIM cards and chargers also gave recipients an opportunity for communication that they had never experienced before” (Brewin, 2008, p.5). However, the pilot example of Kerio valley suggested that M-Pesa is not an appropriate tool in remote areas where phone signals are poor and where local telecom agents do not exist. Remoteness and isolation of local markets also caused problems with inflationary spikes.

A recent evaluation by MacAuslan and Schofield (2011) of the use of the M-Pesa system in Korogocho (an urban informal settlement in Nairobi) concluded that the initiative was a success, for example:
- recipients largely spent the cash on pressing needs, principally food but also school expenses, rent, their businesses and savings;
- recipients’ food consumption increased during the transfer by at least one meal per day per household;
- 75% of recipients interviewed reported investing the money in a business, largely with positive returns; and
- recipients’ use of negative coping strategies decreased during the transfer (for example, less begging; prostitution; and withdrawal of children from school).

The new technology has recently been introduced to Afghanistan, where it is known as M-Paisa. A report by the United Nations Foundation (2009) found that mobile banking has important security implications in Afghanistan. For example, the operator Roshan is using the M-Paisa service to set up salary payments for the police. Previously, police travelled back home to give their families their salaries, but the new system removes the personal danger involved in transporting salaries and means that there is consistent police cover throughout the country.
Initiatives that engage the private sector can also help improve transparency, for example the Medicines Transparency Alliance (MeTa) - a new multi-stakeholder approach towards increasing transparency and accountability in the selection, regulation, procurement, sale and distribution of medicines in developing countries. Other transparency initiatives include: the Extractive Industries Transparency Initiative (EITI) for major multinational oil, gas and mining companies and 24 resource-rich countries; and the Construction Sector Transparency (Cost) initiative.

Although private sector actors have the potential to help deliver development objectives, more M&E needs to be done to measure the effectiveness and impact of such approaches, for example the distributional impact among poor groups. As Ashley (2009) observes, “the evidence is far too broad-brush or anecdotal to allow for hard-headed analysis of strengths and weaknesses, what works or does not” (p.8). One of the most comprehensive evaluations of the impact of international funding on PSD is the 2000 report on ‘Phare’ - the European Union’s (EU) financial instrument designed to assist the Central European countries (CECs) in the 1990s. The ten-year programme of loans, micro-credit, grants and credit guarantee schemes for SMEs was “typified as weak, poorly-functioning, excessively commercial, determinedly short-termist, and financially unsustainable” (Bateman, 2000, p.48). Some of the lessons learned included the need for: an economic as well as a financial appraisal of all loan applications to include an assessment of additionality, displacement and employment impact; clear national ‘champion’ organizations; schemes with greater scale, more continuity and a longer life to achieve sustainability; and for future schemes to include an element of co-financing on a risk-sharing basis. Some of these lessons learned will be expanded in the next section.

Lessons learned
Donors need to treat such approaches as a high risk, but essential investment, with a healthy tolerance for failure and the flexibility for innovative and experimental ideas, including an exit strategy that allows ownership of the process by the public and private sector entities themselves (Bannock Consulting, 2005). Some of the lessons emerging from the review of the literature include:

- **Multi-country approaches** offer a range of advantages – for example, an evaluation of DFID’s Business Linkages Challenge Fund (BLCF) found that the issue of scale is important and multi-country approaches provide opportunities for country programmes to tap into central initiatives and encourage the participation of larger organizations that operate across borders (Deloitte Emerging Markets Group, 2004). Learning from DFID’s Financial Deepening Challenge Fund suggests that regional concentration is particularly useful because it facilitates “hands on” fund management, with local fund managers who are able to understand and cater to local business need.

- **Risk sharing often results in innovation.** As mentioned above, many of these approaches are ‘high risk’ and have an assured social impact, but often require risk-taking, new research and development (R&D), staff re-orientation, or investment of resources in the short-term (Ashley, 2009). Sharing the initial risk between donors and businesses can help encourage private sector actors to invest in projects which should be commercially viable in the long-term.

- **Credibility and suitability of private sector actors** - Interventions should also be sensitive to local market conditions and work with credible, independent organizations with relevant knowledge and skill (SDC/DFID, 2008).

- **Public relations/communications** builds wider support. This wider audience should include other parts of government (and Parliament), other private sector associations, and key civil society groups (Bannock consulting, 2005)
- **Coherence but not conformity between instruments** - A variety of instruments is needed, to tackle different market failures and in different ways – ranging from micro-finance to reform of the investment climate (ODI, 2005).

- **Business clients need to be able to make the transition between instruments** - More coherent 'mixing,' 'sequencing,' information-sharing and alignment of entry and exit criteria across PSD instruments would help business clients as they grow and 'graduate'. Coherence between grant-based and fully commercial instruments is essential (ODI, 2005).

- **Effective champions** drive successful PPD: “Active, motivated, persuasive champions keep processes on course when obstacles are encountered” (Bannock Consulting, 2005, p. 39)

- **Mentoring** - ensure businesses have access to both finance and mentoring / advisory services. For example, Shell Foundation aims to provide ‘business DNA’ not just venture capital for local businesses (ODI, 2005).

- **Avoid donor dependency**. Interventions should be temporary and catalytic - agencies should avoid performing market roles directly and try to facilitate market players to perform more effectively and take a growing role (SDC/DFID, 2008).

- **Target resources** where maximum and strategic impact can be leveraged, for example business models which can be easily replicated (ODI, 2005).

- **Results** drive PPD over the longer term: “The more successful PPD initiatives focus early on “low hanging fruit”, topics where political resistance to change is low and where reforms can be agreed over relatively short time spans. This strategy builds momentum for tackling tougher, less tractable problems” (Bannock consulting, 2005, p.40).

**Best practice**
There are several examples of best practice, which have been categorised and well summarised by Ashley (2009), who noted that there at least seven ‘levers’ which can be used to harness core business for delivering development (see figure below).
2. Private sector development: lessons learned


This ODI policy note examines private sector development (PSD) instruments and identifies a number of lessons learned for policymakers:

1. **Coherence but not conformity between instruments** - A variety of instruments is needed, to tackle different market failures and in different ways – ranging from microfinance to reform of the investment climate.

2. **Business clients need to be able to make the transition between instruments** - More coherent ‘mixing,’ ‘sequencing,’ information-sharing and alignment of entry and exit criteria across PSD instruments would help business clients as they grow and ‘graduate’. Coherence between grant-based and fully commercial instruments is essential.

3. **Put business clients at the centre of PSD** - be demand-driven by business. Good practice here includes the need for **local fund managers** who are able to understand and cater to local business needs; and the need to leave room for **flexibility and multiplicity of services** within the PSD instrument.

4. **Smart grants, not long-term subsidies** - use grants ‘smartly’ to complement – and over time expand – what PSD support the commercial sector can provide.
5. **Mentoring is key** - ensure businesses have access to both finance and mentoring/advisory services. For example, Shell Foundation aims to provide ‘business DNA’ not just venture capital for local businesses.

6. **Roll out financing models** that overcome the lack of collateral

7. **Strengthen local commercial financial markets** to take a growing role

8. **Target resources** where maximum and strategic impact can be leveraged, for example business models which can be easily replicated.

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This report assesses how public-private sector dialogue (PPD) can support investment climate improvement. The authors were commissioned by DFID Policy Division’s Investment, Competition and Enabling Environment (ICEE) to look at DFID’s and the European Union’s field experiences with PPD processes and mechanisms in their private sector development programmes.

The report notes that donors need to treat PPD as a high risk, but essential investment, with a healthy tolerance for failure and the flexibility for innovative and experimental ideas, including an exit strategy that allows ownership of the process by the public and private sector entities themselves. However, donors should stay clear of imposing their own agendas on the PPD process or creating a situation that in the end makes public and private sector entities respond more to donor priorities than to those of their constituencies.

The authors identify several determinants for success of PPD in investment climate reform:

- **Effective champions** drive successful PPD: “Active, motivated, persuasive champions keep processes on course when obstacles are encountered” (p.39)

- **Buy-in by both public and private sector** is essential. There should be significant local resource commitment (time and money). Avoid donor dependency.

- Maintaining a **balance** between public and private interest and contribution sustains PPD. Engaging trained facilitators in PPD (see Annex 4 – DFID’s experience in Ukraine) can help promote more balanced contribution.

- **Results** drive PPD over the longer term: “The more successful PPD initiatives focus early on “low hanging fruit”, topics where political resistance to change is low and where reforms can be agreed over relatively short time spans. This strategy builds momentum for tackling tougher, less tractable problems” (p.40).

- **Respect** keeps participants at the table.

- **Planning** is vital, including: agendas in advance, minutes and accountability ex post; supporting empirical research (local situation + international good practice); and timetables with milestones for specific outcomes (and specific responsibilities)

- **Measurement** is critical to focusing PPD.
Public relations/communications builds wider support. This wider audience should include other parts of government (and Parliament), other private sector associations, and key civil society groups.

Capable private sector associations are needed for sustained PPD. These should be representative of wider business community and able to produce evidence-based analysis and recommendations.


This 2-page ODI policy brief notes that the private sector has the potential to ‘outstrip’ the impact of aid for development. However, it is argued that more needs to be done to measure the impact of the private sector on development. To this end, ODI is developing new tools and has proposed a ‘Good for Development’ mark, which businesses could use if they prove they make a positive contribution to achieving the Millennium Development Goals. The proposed mark would be more than simply meeting minimum labour standards or being environmentally friendly – the business would need to make a positive contribution on economic development (e.g. skills development). The paper concludes that “new policy frameworks, incentives and business models are needed to maximise the contribution the private sector can make to development” (p.1).


This DFID paper outlines its Private Sector Development (PSD) Strategy - how the UK will support the private sector at home and in developing countries to mobilise their core business for development impact. It includes three pillars –

- **Access** to markets, finance and skills for businesses, while the poor need access to economic opportunities;
- **Competition** is essential for strong businesses - markets that reward hard work, new investment and entrepreneurial spirit.
- **Engaging** with the business community – from multi-nationals to stall holders - to work together better.

In this strategy paper, DFID proposes the following agenda for PSD donors:

- “Making the best use of an emerging common interest in sustainable development between private companies and development agencies.
- Attracting more private sector participation in both the financing and provision of key development-related services such as infrastructure and some health services.
- Ensuring that the rapidly evolving and integrating global trade and financial systems work for the benefit of people and companies in developing countries.
- Tailoring PSD programmes to the very different contexts and circumstances of partner countries ranging from fragile states through to MICs.
- Increasing the private sector development performance of international agencies.
- Engaging with new and emerging donors such as China who are making significant trade-related PSD investments in Africa or the vertical funds.
- Improving knowledge management of private sector development impacts to disseminate best practice more effectively.” (p.21)
The paper notes that DFID has been a leader in the development of the challenge fund approach and is committed to the recently launched $50 million, multi-donor, Africa Enterprise Challenge Fund (AECF), which builds on the successes and lessons of DFID’s Business Linkages Challenge Fund (2000 – 2005), Financial Deepening Challenge Fund (2000 – 2008), and a number of smaller, sector-specific and country-specific challenge funds. These initiatives have lead to a new wave of second generation challenge funds covering: African Enterprise, Remittance Partnerships, Financial Inclusion and the development effects of Supermarkets (Food Retail Industry).

DFID have also been involved in transparency initiatives for PSD, such as the Medicines Transparency Alliance (MeTa) - a new multi-stakeholder approach towards increasing transparency and accountability in the selection, regulation, procurement, sale and distribution of medicines in developing countries. MeTa aims to strengthen governance, improve efficiency, encourage innovative and responsible business practices, and ultimately increase access to medicines. Other transparency initiatives include: the Extractive Industries Transparency Initiative (EITI) for major multinational oil, gas and mining companies and 24 resource-rich countries; and the Construction Sector Transparency (Cost) initiative.


This background note examines how to use ‘inclusive business’ approaches to engage with private sector actors. The author welcomes the creative and diverse approaches, noting that now “is a time of considerable innovation, both within business and among development organizations” (p.1), and notes that at least seven ‘levers’ can be identified to harness core business for delivering development, as illustrated in the figures shown in Section 1 of this query and below, although the boundaries between them are fluid in practice.

Harnessing core competencies for development impact (p.4)

The paper notes that ‘inclusive business’ approaches are appealing to development practitioners as they have the potential to reach millions of poor people, as in the example of M-PESA in Kenya – more than traditional ‘projects’. However, the author cautions that so far there is little data to look at the effectiveness and impact of such approaches on development
significance, for example the distributional impact among poor groups: “the evidence is far too broad-brush or anecdotal to allow for hard-headed analysis of strengths and weaknesses, what works or does not” (p.8).

### 3. Markets for the Poor (M4P)

**Making Markets Work for the Poor**  

This website is dedicated to Making Markets Work for the Poor (M4P) principles – an approach to poverty reduction that donors such as the Department for International Development (DFID), Swedish Sida and the Swiss Agency for Development and Cooperation (SDC) have been supporting over the past few years. It includes links to a wide range of documents relating to M4P, including methods for gathering information, case studies and summary documents.

[http://www.value-chains.org/dyn/bds/docs/detail/681/6](http://www.value-chains.org/dyn/bds/docs/detail/681/6)

M4P is an overarching approach to development that provides agencies and governments with the direction required to achieve change in both economic and social fields. This set of three documents on the M4P approach was commissioned by DFID UK and the Swiss SDC. The first *synthesis* document explains the M4P approach, its rationale, including evidence of impact, and key features in implementation. The second, *M4P Perspectives*, introduces the conceptual underpinnings of M4P and explores its application in different markets including finance, agriculture, water, labour, land, and climate change. The third *operational* guide outlines how to implement M4P, including an overview of good practices, common management challenges and the main lessons from experience.

The document notes that “M4P works, offering greater and more lasting change than other conventional approaches” (p.22). The following examples are provided of M4P working in practice:

- **FinMark Trust, South Africa** aimed to make financial services work more effectively for the poor, by addressing the underlying causes of low access – information, innovation, stakeholder relationships and regulatory processes. Achievements include: contributing to 7.1m increase in ‘banked’ population (from 38% to 60% of the population over a six-year period); new information services; stronger public roles; better innovation environment.

- **FIT-SEMA, Uganda** aimed to improve the quality and relevance of business-related radio programming. FIT-SEMA worked to build the capacity and incentives of radio stations and other players to improve programming and there are now more than 25 radio stations in Uganda, serving 7 million listeners with more than 50 different business-related programme.

- **Katalyst, Bangladesh** improved the productivity of vegetable farming by building information and advice as ‘embedded services’ that retailers offer farmers. Over a three-year period, Katalyst has reached nearly 3,000 retailers serving a farmer clientele of approximately 1 million farmers.

Some lessons learned for M4P include the need for interventions to be temporary and catalytic. Agencies should avoid performing market roles directly and try to facilitate market
players to perform more effectively. Interventions should also be sensitive to local market conditions and work with credible, independent organizations with relevant knowledge and skill.

M4P should also be able to leverage deeper and larger change. Although it can be helpful and valid to start with small pilot projects, it is important that interventions ultimately work with several partners (for example, by ‘crowding-in’ other players) to improve the functioning of the market system.

http://www.growinginclusivemarkets.org/publications/global/

This document, Creating Value for All, is the first in a series of reports by the UNDP’s Growing Inclusive Markets Initiative. It contains 50 case studies of inclusive business models which explore what the private sector can do to include the poor on the demand side, for example as clients and customers, and/or on the supply side, for example as entrepreneurs, producers, traders and employees.

The case studies in this report identify five broad constraints: limited market information; ineffective regulatory environments; inadequate physical infrastructure; missing knowledge and skills; and restricted access to financial products and services. The examples also show the importance of responding to these challenges by using five core strategies:

- adapting products and processes;
- investing to remove market constraints;
- leveraging the strengths of the poor;
- combining resources and capabilities with other organisations; and
- engaging in policy dialogue with government.

The report encourages people in the private sector to be the ‘main agents of change’ for development, but notes that the private sector cannot succeed alone. UNDP recommends that donors and other development practitioners (e.g. policymakers, philanthropists and leaders of public service and not-for-profit organisations) should “partner with the private sector to fund investments in better market conditions, to collaborate in operating business models and to facilitate and lead dialogues for policy change” (p.23).

4. Challenge Funds

Africa Enterprise Challenge Fund (AECF) website  
http://www.aecfafrica.org/

The AECF is a US$50-100m private sector fund, which provides grants and interest free loans to businesses who wish to implement innovative, commercial viable, high impact projects in Africa. AECF is funded by AusAID, DFID, IFAD, the Consultative Group to Assist the Poor (CGAP), and the Netherlands Ministry of Foreign Affairs (NMFA). The first competition was launched in mid-2008 and the fund will run a number of competitions each year for 6 years. Since the launch of the AECF, seven rounds of competition have been held and 39 projects awarded funding. Examples of projects funded so far include:
<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Project Purpose</th>
</tr>
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<tbody>
<tr>
<td>BURUNDI / RWANDA / DRC: Agrobiotec</td>
<td>To rapidly multiply banana clean planting material using tissue culture technology for improved banana production.</td>
</tr>
<tr>
<td>CAMEROON: Guinness</td>
<td>To increase the income of smallholder farmers in North Cameroon through increased sorghum yields and sale to GCSA. This will be achieved through a programme to train farmers in improved production practices; development of the supply chain for improved production inputs (seed and fertilizer); increasing the management capacity of local producer groups and other value chain improvements.</td>
</tr>
<tr>
<td>DRC: Gourmet Gardens Ltd</td>
<td>To develop a thriving and profitable cocoa and vanilla business that will sustainably increase rural household incomes of 1,500 families in North Kivu area of DRC through quality improvements, better standards, certification and new marketing channels.</td>
</tr>
<tr>
<td>KENYA: InfraCo Ltd</td>
<td>To create a private sector run wholesale market for the Kenyan Fresh Fruit and Vegetable sector, serving the domestic market and the East Africa region.</td>
</tr>
<tr>
<td>SIERRA LEONE: Splash Mobile Money</td>
<td>To extend simple, transactional banking services (by mobile/ cellphone banking) to the unbanked in Sierra Leone, facilitating instant, secure and cheap payments over long distances.</td>
</tr>
<tr>
<td>ZIMBABWE: Produtrade Pvt Ltd</td>
<td>To establish a network of Trading Posts; each one a convenient, one-stop-shop for the rural community, where people can sell their commodities and buy their farming inputs and household goods. They will also form the points from which an outgrowing and a financial services scheme will be launched that will develop the area and empower the target market.</td>
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**DFID (date unknown) ‘Africa Enterprise Challenge Fund Concept Summary’, DFID, London**


This DFID concept summary note for the Africa Enterprise Challenge Fund (AECF) outlines why challenge funds are needed, the key characteristics, expected impact and focus. The note also outlines some of the lessons learned from previous challenge funds. For example, DFID’s Financial Deepening Challenge Fund (FDCF) provided incentives to the financial sector to try new ways of bringing financial services to rural areas and “banking the unbanked”. This note describes how the FDCF was also effective in “catalysing financial deepening in countries with relatively weak enabling environments and where little previous work has been done … The grant funding provided helped to pilot projects with assured social impact but uncertain financial returns to test their commercial viability” (pp.2-3). Of the 29 projects funded, 9 achieved high social impact combined with high financial returns whilst the majority achieved a combination of reasonable social and financial returns (see diagram below). The £15m spent leveraged £72m in private sector finance.
Learning from DFID’s Financial Deepening Challenge Fund

The concept note also provides some examples of projects from previous challenge funds:

- **The Great Lakes Cotton Company, Malawi** – A £290K project funded by the Business Linkage Challenge Fund (BLCF) helped establish a partnership between a consortium of large ginners and associations of smallholders in Malawi to provide pre-treated seeds, technical assistance and other inputs to registered farmers and to buy back the cotton produced. Results achieved: over 200,000 farmers increased cotton production 265% and obtained better prices for their cotton; the number of casual labourers employed increased by about 25,000 in just one year; Malawi tripled its cotton exports.

- **Café Direct, East Africa** – a grant by BLCF helped improve market access for over 40,000 farmers, as well as reducing the cost of technology transfer and training and allowed Café Direct to test the financial viability of a project with high social impact.

- **Unilever, Tanzania** - a BLCF grant provided the incentive for Unilever’s research department to implement a pilot scheme for smallholders to gather and cultivate Allanblackia nuts (a low cost source of vegetable fat) for export from Tanzania.

http://psp.emergingmarketsgroup.com/components/download.aspx?id=2dd6671b-336a-45a3-be75-c48e19acdd40

This evaluation of DFID’s Business Linkages Challenge Fund (BLCF) is undertaken by Deloitte Emerging Markets Group. The BLCF was launched in 2001 by DFID to engage with the private sector to accelerate growth and poverty reduction in developing countries. The report notes that there is a ‘broad division’ between the types of project BLCF funds:

- Projects with a relatively quick, predictable or direct payback for the private sector – includes projects led by smaller entrepreneurial businesses that are more directly managed. This category has potential for broader market development through innovation and demonstration effects.
- Projects that provide the private sector with longer term, less predictable or less direct returns - tends to include projects with large corporate partners that often
include third party support during implementation. The potential for market development here comes from internal replication.

The report notes that the BLCF has the advantage of being a multi-country approach – “scale offers a range of advantages - particularly when looking to engage larger organizations that operate across borders. There are also opportunities for country programmes to tap into central initiatives” (p.1).

Chilver, C., Van Diermen, P., and Jones, W., 2006, ‘Using Enterprise Challenge Funds to Promote a More Enabling Environment for Business: Challenges and Opportunities’
http://www.businessenvironment.org/dyn/be/docs/126/Session4.2Paper4.2.2Chilver.pdf

This paper examines how Enterprise Challenge Funds (ECFs) can most effectively support positive and pro-poor change to the business enabling environment (BEE). The findings of the paper helped inform the feasibility of AusAID funding for an ECF for poorer regions of Asia and the Pacific. The authors highlight a number of lessons learned from previous evaluations of ECFs worldwide:

- Target ECFs at opportunities created by BEE change, for example when legal changes permit electronic and mobile banking, an ECF could help share the risk for banks and/or mobile telephone companies willing to increase access to rural areas.
- Use ECF experience to better target BEE efforts
- Use ECFs to facilitate and enhance Public-Private Dialogue, for example Expert Panels, typically comprised of local opinion leaders, business people and NGOs, can be useful and have positive spin-offs on the BEE
- Use ECFs to directly fund BEE projects; and
- Use links between ECF activity and dispersed BEE efforts to improve donor BEE coordination and impact.

http://www.opml.co.uk/publications/client_reports/fsd_kenya_impact.html

This impact assessment of the Financial Sector Deepening Trust in Kenya (FSD) examines the FSD’s five years of operation. FSD provides a multi-faceted programme of support to the financial sector and has a diverse portfolio of projects. The report concludes that the FSD has contributed in a significant way to the development of an improved enabling policy and regulatory environment. At the meso level, the programme has helped to build significant capacity in the support service market and has also contributed to the shift to a more client-oriented market. FSD’s support has also helped to enable the transformation and institutionalisation of key providers within the sector, while facilitating the survival of institutions that were under threat.

The report also concludes that all levels of FSD activity ultimately contributed to sustainable improvements in livelihoods of poor people through reduced vulnerability to shocks, increased incomes and employment. The authors find some strong evidence that FSD activity is resulting in expanded provision of appropriate and affordable services and, in particular, that the culture of the market has changed to become more focused on reaching poorer clients. However, the report concludes that the “evidence is more mixed in terms of patterns of access and use of services at by poor people. The evidence suggests that there are some improvements in outreach to socio-economic groups previously under-represented in the profile of clients of banking and microfinance institutions, but greater clarity is needed over the poverty profile of who is able to access the services. In terms of the final impact on the incomes and vulnerability of poor Kenyans, it is not currently possible to derive firm conclusions” (p.vi).
This case study describes a cocoa production project funded by DFID’s Business Linkages Challenge Fund (BLCF) in the Dominican Republic. The Dominican Republic’s Small Cocoa Growers Association, CONACADO, approached BLCF to investigate the feasibility of funding unique market niches that would guarantee a reasonable price level to its members. The BLCF provided a grant of £189,000, which was matched by a private sector contribution of £225,000 from CONACADO and Barry Callebaut (the world’s leading manufacturer of high quality cocoa and chocolate products). A pilot program was launched in two out of the nine cocoa-producing regions of CONACADO, and small growers were encouraged to work together through BLCF to respond better to organic cocoa production requirements. Project impacts include (p.2):

**Business Linkages:** Stronger relationships down the supply chain, for example CONACADO is now a long term partner of Barry Callebaut. CONACADO supplied 700 tons to the ‘gourmet’ chocolate market, which exceeded its target of 500 tons and allowed it to establish new linkages with other European cocoa buyers.

**Market Development:** The project helped CONACADO to improve the quality of cocoa produced, which in turn has developed the market for new types of ‘gourmet’ cocoa—CONACADO is the sole supplier of quality cocoa beans to an Italian entrepreneur for their direct retail business. Better quality of cocoa wine and jam is also produced as a by-product by the small-grower women’s group. In addition, a formal transport system for cocoa beans has been established, thus creating more employment for truck drivers.

**Pro-Poor Impact:** Working with small growers and, in particular, choosing the poorest production regions (Yamasá and El Castillo) has improved rural livelihoods. The main achievements include:

- A differential of US$405/ton (US$145 over the milestone) is now paid to small growers.
- 1,225 farmers (well over the 350 milestone) are now producing superior organic cocoa.
- Women now contribute to the drying stage of the process and this generated a 25% increase in employment.
- Computer technology has been upgraded at CONACADO and remote communities have been linked to the internet.
- Increased purchasing power among the wider community.

The case study notes that “private sector funds can definitely be leveraged for pro-poor growth” (p.2). One of the key lessons learned here was the importance of including the private sector as “risk-takers in the project with mutually beneficial commercial objectives” (p.2). It was also critical to have ‘strong leaders’ and one of the regions, Yamasá, was chosen because it had a very strong leader who could implement change.
5. M-PESA Program

http://www.mitpressjournals.org/doi/pdf/10.1162/itgg.2009.4.2.77

This article in 'Innovations' journal examines the lessons learned from M-PESA, the mobile money service offered by Safaricom in Kenya. M-PESA facilitates a number of financial transactions through mobile phones such as transferring money, checking account balance, paying bills, purchasing mobile phone credit, and transferring such credit to others. Customers can also deposit and withdraw cash from their M-PESA account by visiting an authorized agent. With 6 million customers, 9,000 retail outlets and over USD 1.6 worth of transfers having been made through the M-PESA system, it is the most successful mobile money service to be launched in Africa.

The authors attribute M-PESA’s success to:
- Latent demand for money services driven by rural-urban migration;
- Safaricom’s market domination with 77 percent market share in voice telephony;
- Safaricom’s strong brand presence, nationalistic marketing campaigns and brand association with people’s perception of modern Kenya;
- Easy to use services and consistent customer experience across all retail agents;
- Easy and quick registration process;
- Simple and transparent retail pricing;
- Free deposits, no minimum balance and ATM access


This evaluation presents the findings of Concern Kenya’s Kerio Valley Cash Transfer Pilot (KVCTP) – a programme designed to help people get back on their feet in the post-election recovery phase. The KVCTP was the first time that M-pesa, or any mobile-phone based system, has been used for transferring cash in an emergency or development context. The M-pesa system has the advantage of allowing cash to be securely distributed in volatile and insecure environments. The cash transfers have had a ‘multiplying’ effect on the local economy and enabled people to prioritise and make choices – “the pilot had a strong impact on beneficiary empowerment and sense of dignity. Use of a process which required beneficiaries to interact with new technology transformed them from benign recipients of aid to the active participants in a process. The provision of phones, SIM cards and chargers also gave recipients an opportunity for communication that they had never experienced before.” (p.5)

Targeting women, combined with the relatively small size of the transfer, was effective in ensuring that women retained control of the cash. The evaluation also found that about 70 per cent of the cash transfer was spent on food, with the remaining 30 per cent on transport and other non-food essentials. No incidents of misuse of the cash were found.

However, the pilot example of Kerio valley suggested that M-pesa is not an appropriate tool in remote areas where phone signals are poor and where local telecom agents do not exist. Remoteness and isolation of local markets also caused problems with inflationary spikes - cash amounts need to be increased or reduced depending on local market prices to enable people to have the same take home basket of commodities.

This evaluation report looks at the findings from a cash transfer initiative implemented by Concern Worldwide in Korogocho, an urban informal settlement in Nairobi, in 2009 and 2010. The Korogocho initiative used the M-PESA mobile phone bank transfer system to transfer Ksh 1,500 on a monthly basis to almost 2,000 households. The evaluation concluded that the initiative was a success: recipients largely spent the cash on pressing needs, principally food but also school expenses, rent, their businesses and savings; recipients’ food consumption increased during the transfer by at least one meal per day; 75% of recipients interviewed reported investing the money in a business, largely with positive returns; and recipients’ use of negative coping strategies decreased during the transfer (for example, less begging; prostitution; and withdrawal of children from school). The authors recommended that, with some adjustments, the initiative form a basis for i) a longer-term social protection programme and ii) a livelihoods grant and loan package.


Pages 43-45 examine M-Pesa use during election violence in Kenya and the introduction of the new technology, known locally as M-Paisa, to Afghanistan. The authors argue that M-Pesa has important security implications. For example, the operator Roshan is using the M-Paisa service to set up salary payments for the police. At present, police travel back home to give their families their salaries, but the new system removes the personal danger involved in transporting salaries and means that there is consistent police cover throughout the country. The report also notes that in Afghanistan M-Paisa is in partnership with a microfinance institution, First MicroFinance Bank: “customers can repay their loans with M-Paisa, which has allowed the bank to expand its reach to potential customers. The reduction in costs has also made possible a reduction in interest rates charged—rates are expected to fall by about one-fifth when the system reaches a larger scale” (p.45).

6. Other approaches

http://www.sida.se/Global/Partners/N%C3%A4rlingsliv/innovations_against_poverty[1].pdf
And: http://www.sida.se/English/Partners/Private-sector/

The Swedish International Development Cooperation Agency, Sida’s, Business for Development (B4D) is described on Sida’s website and in this programme note. B4D aims to engage the private sector to develop products, services and business models that can fight poverty and climate change. The international public procurement process started in May 2010, so it is too early to identify any lessons learned yet. However, Sida provides an example of best practice – the invention ‘Solvatten’, a portable solution that makes unsafe water drinkable by using solar energy.
Business Sector Advocacy Challenge Fund (BUSAC)
http://www.busac.org/

The Business Sector Advocacy Challenge Fund (BUSAC) supports the growth of a competitive private sector in Ghana. It is supported by DFID, USAID and DANIDA (the Danish development ministry). BUSAC aims to improve the business environment through:

- broader private sector engagement in government policy making and policy implementation;
- strengthened capacity of private sector organizations to advocate for pro-business sector reform in Ghana, to support the Ghanaian economy and contribute to poverty reduction;
- improvement of the private sector by removing bottlenecks at all levels of government administration, but also within the private sector; and
- broader public understanding of the role of business in society.

The website includes nine success stories, for example in the project ‘Bencom Youth’, the Bencom Youth Enterprise Association (BYEA) successfully used the BUSAC ‘vehicle’ to convince the Food Research Institute (FRI), the official institution in Ghana with the mandate to supervise and certify all set-ups of spore production; to extend their services to mushroom production centres in and around Techiman (a leading market town in Ghana). Through this advocacy initiative, there are more than 350 young men and women within the Techiman area actively engaged in mushroom production. There is an expansion of jobs in mushroom production for the youth in the area and improved incomes for these mushroom farmers from improved technology and produce quality.

http://waterwiki.net/index.php/Banking_the_Unbanked_in_Fiji:_The_ANZ_Bank_and_UNDP_Partnership

This paper looks at the experiences of the Fiji Rural Banking service, a partnership between UNDP and the commercial bank, ANZ Bank. ANZ Bank entirely funded the set-up and operation of the rural banking service, which includes a fleet of 6 mobile banks that travel on a regular schedule to 150 designated rural villages and settlements in the main islands of Viti Levu, Vanua Levu and surrounding islands. UNDP assisted with the feasibility assessment by sharing experience on microfinance schemes, providing information on the rural economy, validating that the poor are bankable, and provided training for rural banking staff. UNDP also lent its support to the bank in securing specific dispensations from the Reserve Bank and made a joint presentation to the Prime Minister and key Cabinet Ministers to seek endorsement for the initiative. In the paper, some early lessons are highlighted:

- Creative thinking, continual monitoring and learning to stay flexible and identify new opportunities;
- The ‘right people’ to drive the partnership;
- The importance of financial literacy – the project includes a 4-hour village based training in budgeting, saving and understanding your financial situation;
- People-focused - participatory needs assessment and wide consultation was a critical element in designing both a responsive banking and financial literacy training programme; and
- Greater efforts at creating sustainable partnerships between MFIs and banks are needed and development agencies can play a role here.

This article in the journal, Small Business Economics, explores the impact of Business Support Centres (BSCs), set up in Central and Eastern European economies with EU support in 1990. The networks of BSCs were structured to be private sector-led with minimal local government participation. After a decade of experience, the author concludes that the BSC networks can be “typified as weak, poorly-functioning, excessively commercial, determinedly short-termist, and financially unsustainable” (p.48). The paper observes that BSCs compare very badly with previous historical episodes of Small and Medium Scale Enterprises (SME) development facilitated and co-ordinated by the local state. Moreover, the channelling of international financial support overwhelmingly into the independent BSC networks has had a negative impact on local governments, leaving them ill-equipped to face the current economic challenges.


This evaluation report focuses on all Phare-financed SME programmes. ‘Phare’ was the European Union’s (EU) financial instrument designed to assist the Central European countries (CECs) in the 1990s. It was established in 1989, covering at that time only Poland and Hungary. Within two years the programme was extended, in terms of both countries and budget. By 1997, 13 CECs have become eligible for Phare support. Together, the programmes involved an allocation of around €320 million between 1990 and 1998: €158 million for technical advice and institution building activities; and €163 million in direction financial support.

Overall, the performance of Phare financial support programmes (loans, micro-credit, grants and credit guarantee schemes) for SMEs were evaluated to be ‘rather poor’. The small equity schemes were judged to have had the most economic impact. The loan programmes were most variable, with some schemes (Slovakia and Hungary) being judged to be above average. The single micro credit scheme and the grant schemes suggested above average in terms of effectiveness, but in overall terms both were judged to be below average, due to the lack of sustainability (and impact) in the case of the grant schemes. The evaluation provides the following recommendations to improve the economic impact of direct financial support to SMEs:

- “The need for an economic as well as a financial appraisal of all loan applications to include an assessment of additonality, displacement and employment impact.
- Greater involvement of the Business Support network in the marketing, economic appraisal and performance monitoring of the firms.
- The need for a clear national ‘champion’ organization to own the fund, monitor and oversee its economic performance and ensure that the loan criteria (sector, size of enterprise, size of loan, repayment, interest rates etc) are regularly adjusted to get best value from the funds.
- Future schemes should include an element of co-financing on a risk sharing basis with the intermediary banks.
- Schemes with greater scale, more continuity and a longer life to achieve sustainability.
- Each project needs to have clearer strategic objectives, including details about the overall size of the fund, plans to achieve a regular flow of funds, ownership and subsequent management.” (p.v)
7. Additional information

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**Websites visited**

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