BEAM EXCHANGE

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Managing partnerships with the private sector for inclusive growth: Principles that work!

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Rubaiyath shares his practical tips for engaging with the private sector on innovations for pro-poor growth.

I have been working in the field of market systems development for over a decade. Credit to my luck or exposure, I have had the opportunity to apply the approach in health, agricultural and industrial market systems in South and South East Asia, the Middle East and West Africa. I have also had the opportunity to work with a diverse range of private sector actors — some of them large, employing thousands of workers. Some of have been micro-enterprises, employing some seasonal workers. The contexts, challenges and opportunities varied with respect to the prospect for inclusive growth or pro-poor growth. However, the principles for engaging the private sector remained primarily the same. Here is what I learnt over the years and what I apply in practice to effectively engage the private sector on innovations for pro-poor growth:

Know your maths and have a plan

When we talk about private sector driven pro-poor growth we are essentially talking about the private sector investing in untapped opportunities in the market involving the poor. To facilitate such investment, it is essential that the project managers are clear about the prospective return for the private sector. Being able to quantify the opportunity is what matters the most. If you are a project manager tasked to engage the private sector, then check whether you know the following:

- **The market size.** In your logframe or results chain it is reflected as outreach or the number of households benefited.
- **The challenge restricting the investment.** This is your rationale for collaboration or your answer to the question: why can't the private sector make the investment on their own? Why do they need your support?
- **The resources and activities that would be required to make a profitable business out of the opportunity.** This is the total cash and non-cash investment made jointly by the project and the private sector partner; the private sector must acknowledge that some part of the investment made by the project needs to be continued by them after the project support is withdrawn)
- **The return on investment for the investors.** How long will it take for the private sector partner to report positive return? How much return on investment is expected by the end of the intervention period?

Search for the right partner(s)

Often, I find projects tempted to work with large firms or lead firms from the very onset of the project. I find this faulty. The purpose and the opportunity of the intervention should dictate the choice of partner. Form follows functions. Newcomers can make wonders! Sometimes partners can be traced through our networks, or they are found by 'thinking out of the box' and creatively. Sometimes we advertise. The methods differ. But the goal remains the same: we are searching for businesses that are interested to invest in the opportunity that we identified through our research and engagement in the field. No investor will shy away from a promising investment opportunity. If you are struggling to identify the right partner or private sector investor for the intervention then ask the following:

- Does your intervention provide a realistic business opportunity?
- Is it too risky or too early for the market to invest in the idea?
- Does the development incentive outweigh the economic incentive of the partner?

Right size your offer

I do not like 50-50 cost sharing arrangements. This sends a false signal; after all which investor would say upfront that they will share 50 per cent of the costs, no matter what the risks are? Eventually, the projects that try to implement such fixed cost sharing modalities may turn out to be more expensive than flexible ones since they are potentially investing more than what is required. I allow the risk and opportunity matrix of the intervention to dictate the cost sharing. If the risk is high and so is the opportunity, I do not mind dolling out 70-80 per cent of the total investment. But I always try to make sure that the intervention plan is robust enough to ensure that the partners will have the return to continue the investment without project assistance. Having a flexible cost sharing arrangement plan allows me to negotiate and to make the partnership interesting for everyone. However, some donors do not allow such flexibility and there are reasons why. A topic worthy for BEAM Exchange to explore further.

Build your network, grow and withdraw

I make it a point that market facilitators should be known by the business community in the relevant sector. Who is chasing who? If the project managers are chasing the private sector throughout the project period then we must be doing something wrong. It might be a signal that the interventions pursued by the project are not attractive for the market. As the project matures, it should aim for private sector actors to proactively pursue the project with investment ideas. This is an evidence of wider systemic change being achieved by the project. Therefore, kick-off by letting the relevant actors know about your project, start with some low hanging fruits and deliver results, and build on these results to attract further investment. Then let the market actors come back to you with further ideas.

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