Inside Inclusive Business

The Practitioner Hub FOR INCLUSIVE BUSINESS

Business Innovation Facility

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How can companies and market systems programmes engage effectively?

The Business Innovation Facility (BIF) is a £32m private sector development programme funded by the UK Department for International Development (DFID). The programme supports companies to innovate products and services that benefit both poor people and the private sector. The programme is being implemented principally in Malawi, Myanmar and Nigeria. BIF engages with businesses either by:

- first identifying a market in which to operate, and then finding appropriate companies with whom to work; or
- identifying multinationals that are looking to innovate, and then introducing a programme to develop the market in which they are working.

In this report, we explore examples from both of these strands.
This report distils learning from all three countries after the first three years of the programme. More information can be found at: www.bifprogramme.org

Introduction

Why this matters:

Donor programmes and companies increasingly work together. But why do such collaborations prove hard, and what lessons can be drawn for each party? This report examines examples of how businesses have worked together with one type of donor funded programme.

> *"Working with a donor funded programme is not an easy fit for a private company running a business venture that's marked for profit making as there are some elements which the donor require to have in place but are tough on business."*
>
> **Company in the rice market, Malawi**

Companies that are pioneering new business models which will benefit low income consumers, producers and employees sometimes approach donors for help. From a company perspective, there should be an easy fit between their desire to work in a more inclusive way and a donor's aim to reduce poverty. However, donor resources will often be allocated to large-scale programmes targeting specific development impacts and beneficiary populations. For example, market systems development programmes, which aim to bring about sustainable change at scale, can be hard to understand and not as responsive to individual companies as they might hope.

Market systems development programme – as their name suggests - seek to influence how an entire market system works - not just a specific enterprise. They facilitate change by working with private and public sector actors. Some of this activity may be indirect – such as advocacy work to lobby for policy change – and some will be overt, working directly with a partner towards a common goal. The Business Innovation Facility (BIF) is one such programme. BIF's principle strategy is working with businesses, and ensuring that well focussed and mutually beneficial working relationships are forged and maintained is critical to its success. The report is based on experience, case studies and lessons learned during the implementation of BIF.

This report was published in collaboration with the Practitioner Hub for Inclusive Business as part of its Inside Inclusive Business series.
The 'Inside Inclusive Business' series is based on the real-world experiences of companies who are actively expanding opportunities for people at the base of global economic pyramid through their core business activities. Each edition explores one aspect of inclusive business. The aim is to share practical ideas, challenges and solutions, as they emerge, in ways that are relevant to other business and development professionals.

UKaid from the British people

Some definitions

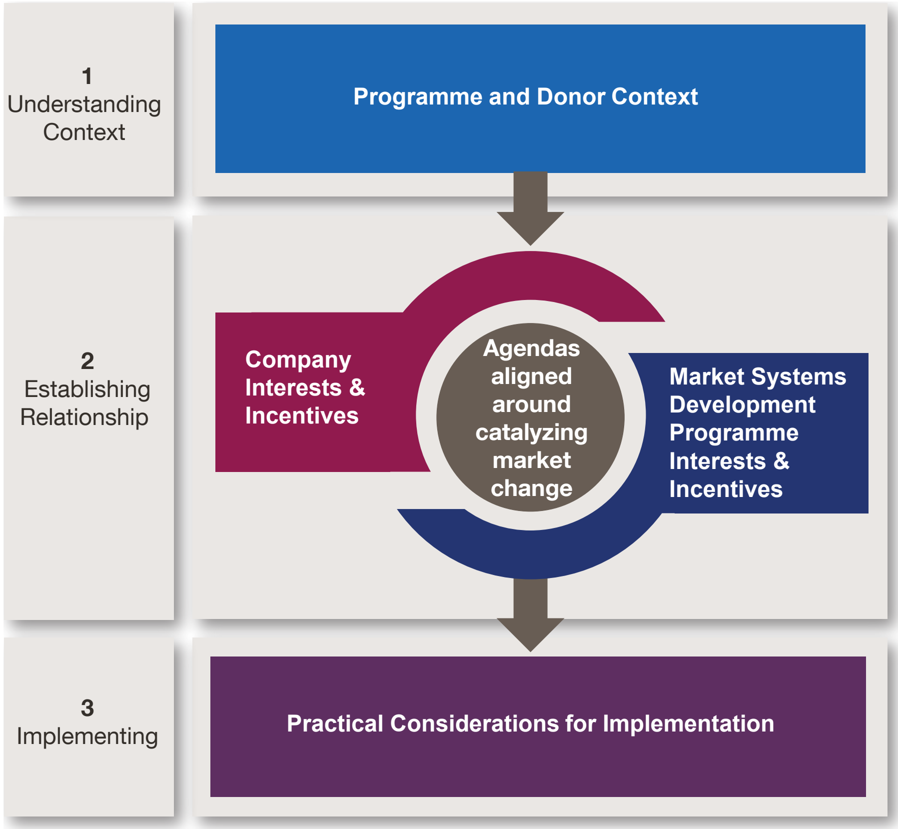
The Practitioner Hub for Inclusive Business defines 'inclusive business' as business models that combine commercial and social returns'. These social returns can be in the form of a positive impact on a company's customers, suppliers or employees.

The 'Operational Guide for the Making Markets Work for the Poor (M4P) Approach' sets out the principles for what is referred to as the 'market-systems approach' in this paper. It notes that improving the lives of the poor – stimulating growth and expanding access – means transforming the systems around them. Market-systems development recognises this reality and provides a coherent, rigorous approach to understanding and intervening in market-systems so that they function more efficiently and sustainably for poor women and men.'

Find more on these topics at: www.inclusivebusinesshub.org/ and https://beamexchange.org/market-systems

Structure of this report

This report is structured as follows:



There are three main sections:

1. **Understanding the context:** This first section briefly outlines the way that market systems development programmes are designed and some donor policies that may determine the type of engagement that can be undertaken with companies.
2. **Establishing a relationship:** As the diagram suggests, there are both company and programme incentives that need to align for a successful engagement between a company and a market systems development programme to occur. The report splits this topic into three sections, first outlining the need for an alignment of interests around a common agenda and then exploring how this applies to first companies and then to the programme.
3. **Implementing:** In the third section, the report shares some of the practical lessons arising from BIF. These should help both companies and programmes that are seeking to engage with each other.

Section 1. Understanding the context

Why this matters:

A company that understands the logic behind a market systems programme's design and approach will find it easier to engage with the programme.

In a successful collaboration each partner will understand what the other partner is trying to achieve as this enables them to find a common agenda more easily. It is therefore useful for businesses to grasp the key concepts that determine how donor programmes are designed and how they operate. Like all donor programmes, market systems development programmes arise from a combination of previous donor experience – good and bad – and in response have developed a theoretical approach that holds a compelling logic for donor decision-makers.

> *"I will advise [any company seeking to engage with BIF] to be enlightened about the program… and be PATIENT because most of the donor programs take longer time to implement."*
>
> **Dairy market cooperative, Nigeria**

Some typical donor procurement considerations:

Does the project avoid engaging in restricted sectors (e.g. alcohol, tobacco, military)?

Does the project avoid engaging with restricted products (e.g. pesticides, luxury goods, CFCs)?

Does the project adhere to rules/ norms on social issues such as child labour and exploitation?

Does the project represent good value for money?

Market systems development programmes are rooted in an analysis of markets that have the potential to benefit large numbers of poor. The first step is to assess which markets present the greatest potential for helping poor people. Once a focus market has been agreed, the programme will then undertake extensive research to understand and address constraints, or develop untapped opportunities, that unlock this potential. This involves analysis of the whole market system – from the traditional value chain in which the poor are engaged, as well as organisations that provide supporting services, and formal and informal 'rules' that govern the system. In many markets a business innovation can be a critical step towards removing constraints in the wider system.

A programme will then focus on this market and the constraints identified, and may not be able to easily work in any other market or intervention area – even if a company presents a compelling case for the social impact of a new initiative.

Market systems development programmes also need to comply with donor procurement rules that restrict support to companies in sectors such as tobacco and defence and use of contentious products such as some pesticides or luxury goods.

Section 1 summary:

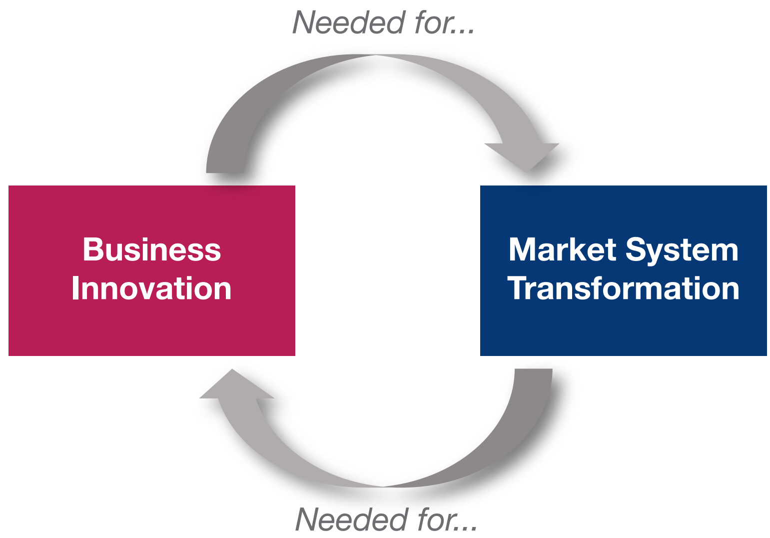
- Market system programmes are based on selection and in-depth analysis of a market system.
- The programme will generally be limited to working in the markets that it has researched.
- Any individual engagement with a company will also have to comply with donor procurement rules.

Section 2. Establishing relationship: aligning agendas

Why this matters:

Market systems development programmes and companies need to identify common goals to be able to engage with one another.

Companies' engagement with a market systems development programme happens once a common agenda has been identified. The company interest will be an initiative that has both commercial potential and will bring benefits to new low-income customers, suppliers or employees. The market system programme will be looking for the initiative to be catalytic within the wider market, with the potential to result in a transformation in the way the market benefits those on low incomes. The following diagram captures the virtuous circle that is achieved when a company and a programme find this alignment:



Engagement between a company and a market systems programme occurs successfully when:

- A company has a strategic interest in a new business model, or change in business practice, that will result in commercial returns, but is either not yet able to make a sufficiently strong case for investment or lacks other resources or information to proceed alone; and
- The programme has identified that a market could deliver significant benefits to low income consumers, producers or employees if a breakthrough innovation or new way of working were introduced in the private sector, changing the system so that it operates in a more inclusive way.

For example, in the aquaculture feed market in Nigeria (Case Study 1) the larger companies that first tried to engage with BIF did not have the same priorities as the programme, which meant the proposed engagements did not take off. However smaller companies found that they had a common agenda with BIF and the businesses and the programme benefited from collaborating together.

> *"BIF or the donor is not the owner of the project but a partner in development."*
>
> **Company in the rice market, Malawi**

Case Study 1: Finding the right alignment of incentives

Context: In the aquaculture feed market in Nigeria smallholder fish farmers often lack the skills they need to improve productivity. 70-80% of their costs are in feed and so proper management and use of feed can make all the difference to yield and the commercial viability of small-scale fisheries. Demonstration ponds utilising feed supplied by fish-feed companies can help farmers to learn new skills and understand the benefit of using commercial feed, thereby stimulating the market for the companies involved.

Company perspective: The rapid depreciation of the Naira meant that established companies selling imported feed were struggling to meet market demand. The proposed partnership required companies to provide feed for demonstration ponds but, due to the scarcity of the product, these established companies were no longer prepared to make imported feed available for use in demonstration ponds. These changing incentives required a shift to emerging players that had a stronger incentive to partner with the programme and participate in the demonstration pond intervention, as a means of finding new customers and gaining market share.

BIF perspective: BIF is seeking to help small fish farmers to become more productive and increase their income. One of the ways they can do this is by receiving more information on farming practices and the benefits of using commercial feed. By training fish farmers in these areas and encouraging them to train other farmers via demo ponds on a commercial basis in partnership with feed suppliers, BIF aims to capitalise on the specific and interdependent incentives of the feed companies, fish farmers and hatchers.

Company interests and incentives

Why this matters:

The nature of incentives that a company has to progress an initiative has a strong bearing on whether the business can engage with a market systems development programme.

This section explores the nature of company interests and incentives that can best align with those of a market systems programmes. It highlights some BIF experience of where these interests and incentives have been aligned with the aims of the programme, and what lessons can be drawn on how best to achieve this.

> *"To begin with the client should be clear of what they want done [and what are] the objectives of the project."*
>
> **Company in the rice market, Malawi**

In Case Study 2, a company was introduced to BIF with a project where the primary interest for the company was corporate social responsibility (CSR). This made it difficult to find alignment with BIF's market systems approach. However, following some initial engagement with BIF, the company detached a much more commercially driven project from its broader CSR initiative. The initiative is now being run by an in-country team that is incentivised to acquire new customers and increase sales.

> *"The value [of the project in Case Study 2] is customer acquisition."*
>
> **Country-based manager**

Below are some of the other lessons that have emerged with regard to the interests and incentives that a company may have that will make it easier to engage with a market systems development programme:

Look for core business opportunities: Companies may assume that development programmes want to focus on their social mission, or corporate social responsibility initiatives, whereas market systems development programmes are only interested in commercially sustainable business models. Sometimes a development programme may appear to be more 'pro-market' than a company. Case Study 2 is a good example of this, with BIF being a proponent of a firmer focus on core business, moving CSR activities into a separate cost centre within the company.

A company seeking to collaborate with a market systems development programme, as the company in Case Study 2 was, can initiate a conversation by sharing its strategic objectives with programme managers to see whether there is any common ground. Most often the value in partnering comes when the company achieves a business objective that contributes directly to the bottom line.

The programme will be looking for partners among companies operating in a market based on analysis it has done and the way that it hopes to achieve a market system change. As the aquaculture market examples from Nigeria illustrates (Case Study 1), it is possible for this analysis to change as market conditions evolve, and if so programme managers will need to adjust their thinking to select more fitting partners.

Case Study 2: A company that is moving a project from CSR into core business

Context: Consumers in rural Pakistan are often unable to access hygiene products that contribute to reduction in the incidence of childhood diarrhoea. New business models are needed that can reward fast-moving consumer goods companies for the additional cost and difficulty of distributing and marketing products to these consumers.

Company perspective: The large multi-national with whom BIF has been working made a significant commitment to making a contribution to the prevention of diarrhoeal diseases. Its philanthropic fund invests in awareness campaigns to promote measures that people can take to combat such infections. In Pakistan they have a core business objective to grow the market for their personal hygiene products. The company conceived a CSR project that combined education on personal hygiene with increased sales of personal hygiene products. Analysis of a small pilot demonstrated that this model would not reach scale or sustainability because the distribution of products required a large, ongoing subsidy. The company therefore decided to separate management of its education and sales activities. Hygiene education is funded by the company's corporate affairs team from its international HQ whereas responsibility for sales was taken on by the in-country commercial team.

BIF perspective: BIF wants to facilitate a change in the market for personal hygiene products such that consumers in rural Pakistan get access to affordable products. It agreed to support a further pilot that will test a new distribution model developed in-country that could reach one million households within 5 years. BIF will use this to learn more about how the market more widely can increase rural access to personal hygiene products.

Case Study 3: The risks of getting the balance of support wrong

Context: There are a very limited number of companies engaged in the sale of pico-solar products in Malawi with whom BIF can work, but there is interest from companies that sell larger solar systems to move into this space and improve the choice available to consumers. **Company perspective:** One company showed interest in developing a PSP offering, moving beyond its current focus on larger solar systems for businesses, private individuals and NGOs. Some of the company's managers thought there could be an opportunity to expand the company's portfolio and reach consumers at the bottom of the energy ladder. However, there was not universal agreement that this was the right strategy and senior management in particular were not strongly committed to the idea or prepared to investment in what they perceived to be a risky initiative. **BIF perspective:** BIF wants to facilitate a change in the market such that consumers are offered a much wider choice of affordable solar products. The BIF team thought that with the right support to the company management might become more committed to selling solar products and thereby demonstrate the commercial viability of selling PSPs. BIF tactics were to offer a wide range of support to the company, including:

- preparing a business case for senior management;
- mitigating risk by providing financial support to the company to cover part of the cost;
- providing support to develop and adopt a management information system; and
- 'seconding' a junior consultant to work with the sales team.

"As is the case world over, companies tend to pay heavily for their operational assessment all in a bid to improve their efficiency. In BIF one finds a partner who is willing to help with organisational assessment as well go the distance in ensuring success."

State-level Ministry of Agriculture, Nigeria

Find the right incentive – but within a company's comfort zone: Assuming that a common agenda can be identified, the programme can play a valuable role in helping companies to recognise a core business opportunity, and to then reduce the risk of investing in something that is still unproven.

However a market systems development programme may sometimes overstep the mark when incentivising a partner company to trial a new approach. For example, in the market for pico-solar products such as hand-held lamps, the BIF team in Malawi offered a company a wide range of support (Case Study 3). The hope was that this would persuade some of the company management who were unconvinced by the opportunity to expand sales of these products.

However the managers who were not fully behind the initiative were worried when sales were slow and so reduced prices were under-priced to a point where it was difficult to break even. The company eventually decided not to proceed with the initiative despite the many incentives provided by BIF.

This suggests that there can be a delicate balance for a programme in offering what may seem an unfair level of support to one company in a market versus finding a partner who is willing and able to catalyse the change of practice that is sought. Similarly, a programme needs to exercise caution in funding something that a company wants to do anyway.

There is also a lesson here for the company: it may be tempting to take on a challenge if a donor programme is offering a high degree of risk-sharing but it may not be in the company interest to do so. Careful thought is needed on both sides to identify an appropriate level of incentive that is enough to remove genuine barriers to investment, but does not lead a company into a strategy with which is it uncomfortable.

"The first thing is to understand your own project and what you want to achieve, because BIF comes in to complement ones efforts. BIF fills the gap to ensure that the project goes an extra mile which it could not manage."

Company in the rice market, Malawi

Case Study 4: A company decides that the risks of engaging are too great

Context: Workplace safety in garment factories in developing countries has become a big issue for European clothing brands following well publicised tragedies in Bangladesh arising from unsafe buildings and a lack of care for workers' rights. The suggestion was that this issue could be addressed in another sourcing country through a market-systems approach that could work build the supply of skilled local engineers and address other similar issues that are contributing to poor building standards.

Company perspective: Multinational garment retailer was in discussion with BIF about a joint-programme addressing building safety in a country where it was sourcing (not Bangladesh). As with any compliance issue, there are many sensitivities for a large, well-known brand to manage. Building safety is a particularly complex one because the 'solution' that was put in place in Bangladesh is felt by some to be over-dependent on international companies compared to what government or local business should be doing. No company will want to be seen as a 'leader' of a similar approach elsewhere without very careful thought.

BIF perspective: BIF was keen to move quickly and set up a study of this market context that could, in its view, be done without naming the partner company in question. It felt to the programme team as though organisational complexity was contributing to slow decision making. However a manager from a part of the company that BIF was not in discussion with was reported to be concerned by the initiative, and their argument won over and the company withdrew interest in this opportunity.

This was the approach adopted by the multinational garment company contemplating a joint programme with BIF addressing building safety (Case Study 4). As noted, a manager from the company was nervous of the risk involved in such a programme and interceded to stop the discussion from moving forward. While this was frustrating for BIF, the company had a rational reason for not proceeding, even though BIF felt that enough had been done to address the issues that were holding the company back from proceeding.

> *"Strictly focus on viability and profitability for your company."*
>
> **Company working in the pico solar market, Malawi**

Make sure that the support is proportionate to the size and capacity of the company: For a small company, the support offered by a programme may be extremely significant in comparison to its turnover, but this may make the engagement problematic. Looking ahead to Case Study 7, in the tourism market in Myanmar some of companies involved found the process of reaching agreement with BIF and getting access to the grant offered challenging because the programme was insisting on a level of formalisation that they did not yet need to reach in any other aspects of their business operations.

> *"Be clear of the capacity of your own organisation in terms of time, management and financial resources to work with the consultant made available and to implement the plans."*
>
> **Company working in the pico solar market, Malawi**

Transparency and clarity on what the company incentive is will be rewarded: Companies are most likely to find common ground and opportunities for partnering with market system programmes if they can openly share the challenges that they face and their motives for wanting to engage. Programme managers rely on businesses being willing and able to change their behaviour so it is unhelpful for a company to remain engaged with a programme when this commitment was lacking, as may have been the case in the pico-solar example (Case Study 3).

> *Our advice to companies that would want to venture into a donor funded programme would be to be clear from the very beginning on the parameters of the project; what is required of them and how far they would be involved in project work and how flexible the project will be on product marketing and sales."*
>
> **Company in the rice market, Malawi**

Similarly a company has the right to expect that a market system programme will be clear on what is being offered. Misunderstandings may cause companies to engage with a programme under false expectations, for example if they are hopeful of receiving financing when the programme can only offer other forms of support. This will only lead to wasted time by all parties when such companies drop out further down the line.

Case Study 5: How providing services to a small number of companies can influence the whole market

Context: Many garment factories in Myanmar have poor operational management. For example, few use industrial engineers to monitor factory performance and so have no means of understanding and addressing factors limiting productivity. Similarly, most lack an HR function and do not recognise the importance of improving working conditions for their employees. When there are shocks to the sector, such as the recent introduction of a minimum wage for the first time in Myanmar, they lack the capacity to respond and remain competitive.

Company perspective: With uncertainty about orders and low margins, garment factories focus on keeping overheads low. There is a lack of experienced personnel in the garments sector, which is part of a wider problem of skill shortages across the Myanmar economy. Factory management is typically highly centralised around the owner with small management teams overseeing all operational functions. Factory owners often have little experience of accessing consultancy services, and so are not aware of the impact they can achieve and may therefore doubt their value.

BIF perspective: BIF's objective is to increase the welfare of workers in Myanmar garment factories. The thesis is that happier workers are more productive, and so BIF is working with a small number of factories to demonstrate the how HR and productivity consultancy services can be used to create a virtuous circle between worker welfare and productivity. In order for this to be sustainable, BIF needs to stimulate demand for such services by sharing the results of these pilots to other factories. The impact of improved working practices may also raise standards, making it possible for more factories to supply European and US brands and allowing Myanmar to compete with China and other key garment manufacturing countries.

Market system programme interests and incentives

Why this matters:

The nature of incentives for a market system programme may not be obvious to a company but will be as important as the company incentives in identifying a common agenda.

The market systems development programme will have developed a strategy for the market to address the constraints identified in the analysis, as described in Section 1. The strategy will capture the interests and incentives for the programme to engage with stakeholders in the market. There will be a logical sequence of how these engagements will lead to systemic, pro-poor change.

For BIF these are captured in a 'results chain'. A simplified results chain for the BIF Myanmar garment strategy is shown below (see Case Study 5 for details):

BIF provides consultancy support to a small number of factories and generates evidence that this consultancy improves profitabilty and worker welfare

↓

BIF shares this evidence with other factory owners who then pay for similar consultancy in their factories and experiences similar improvements

↓

Many workers experience improved welfare across the the garment sector, some from the initial BIF support but a larger number from all the factories that replicate it from their own resources

↓

Productivity consultants are available, and utilised, by garment factories and so best practice in manufacturing and worker welfare will be sustained in the industry

The results chain shows how a pilot with one company, if successful, can be replicated with others to lead to systemic change.

> *"No one wants to help you. Firstly they do it for their own benefit (i.e. jobs, funding, reputation etc.), secondly for the benefit of the affecting people on the ground. Lastly, you might benefit if you're smart enough."*
>
> **Company working in the pico solar market, Malawi**

Case Study 6: Providing missing evidence in a market

Context: Poor productivity among rice farmers in Malawi limits their net incomes, and the use of recycled seed is a key factor in the low yields they achieve. The use of certified seed also improves rice quality and therefore the opportunity for greater profits. As well as using better inputs, farmers benefit from technical assistance to improve their agronomic practices and accessing extension services.

Company perspective: There is not yet a convincing business case for the investment that would be needed in marketing and selling of certified rice seed to smallholder farmers at greater scale. However, companies are interested in seeing evidence that farmers understand the business value of using certified seed and would be prepared to buy it if it were made available by local agro-dealers at the right time and at competitive prices. This evidence would help them to re-evaluate the business opportunity. However, even with this information the risks of making this investment remain prohibitively high.

BIF perspective: BIF was interested in facilitating a change in the rice market that would help smallholder rice farmers to have more sustainable livelihoods. The programme team carried out a survey to produce the evidence of demand that was missing. It then "bought down" the risk for a company that was interested in investing in rice seed sales by underwriting 8 of the 25 metric tons of seed (MT) procured by the company, i.e. BIF would pay for the 8MT in the event the company fails to sell. To further increase the chance of success for the venture, BIF will provide technical assistance to help market the seed through road shows and radio advertisements.

In Malawi, there was a similar situation in the rice market (Case stuidy 6). Seed producers lacked any evidence that it was worth their while to invest in selling improved rice seed to smallholder farmers. BIF developed a market strategy that involved both providing the evidence that companies were looking for, as it had in Myanmar, but then backed this up with a range of other measures to reduce the risk and difficulty for companies to explore new sales channels for certified rice seed.

When developing such market strategies, BIF has learnt the following lessons with regard to how to involve companies:

Avoid raising expectations: Meeting with businesses at an early stage of strategy development provides the programme with valuable information to guide the choice of productive partners in the implementation phase. However, care needs to be taken in what is communicated at this design stage to avoid raising expectations.

Transparency is needed when engaging in initial conversations with companies about the stages and timeframes involved in a market systems development programme. Note that it is not a given that companies involved in the development of a market strategy will be part of interventions later on – although of course it would be ideal if objectives did align and it was possible to form a partnership.

In its work in the Myanmar garment industry (Case Study 5), the BIF team took this one stage further by giving two garment factories a short but effective 'taster' of some consultancy services. This greatly helped the team to understand the problems that garment factories are facing.

> *"One of the key ways of building trust with the partners was by demonstrating industry knowledge and our understanding of their business and pain points, sharing case studies and results from pilots and other countries."*
>
> **BIF project manager**

Understand how companies influence each other: There is no 'typical' businesses with whom a market systems development programme will have an interest in engaging with, but many of the BIF market strategies involve companies learning from each other. So the programme benefits from working with companies that can influence others in the market. The programme is therefore less likely to engage with very small, start-up companies, as they are less influential in wider market-systems. However, there may be occasions in under-developed markets where there are only such companies with whom to work, and the scale and length of support needed is likely to be greater. For example, the pico solar market in Malawi is very new, so BIF necessarily works with some very small businesses (Case Study 3).

Take into account that impact can come from scale as well as influence: A successful pilot with a larger company can be scaled to reach the poor more quickly than a pilot with a small company. For example, if the multinational company that BIF is working with in Pakistan can develop a commercially sustainable way of distributing hygiene products to rural consumers it could benefit millions of people directly. BIF will then hope to leverage this by telling other companies about this innovation so that they can beater reach rural consumers too (Case Study 2).

Avoid unfairness and distortion: It is important that a market systems development programme does not confer an unfair advantage to a company or companies, and one of the key considerations in this regard is ensuring that donor support really is needed by a company before establishing a partnership.

> *"BIF complements [what the company is able to pay towards]...the costs which could have been difficult [for the company alone]…it makes the project go extra mile which could not have been possible."*
>
> **Company in the rice market, Malawi**

Lessons specific to the market systems development programme when entering a new engagement

Be prepared but flexible. Typically the programme will 'make the first move', and so before entering into negotiations, it should construct a proposal to put to the company. It is important to reach an agreement that involves appropriate levels of company contribution. Both parties should also remain flexible and work through any objections or questions that arise to reach a mutual agreement. The company should be encouraged to think up-front about what it can contribute, be it time, financial resources, or in-kind contributions, and not be surprised when this is raised by programme managers.

Be generous. A programme will have gained a significant level of industry knowledge and insight and should openly share the information it has gathered, where possible. This information may be in the form of research documents or industry statistics which will benefit the private sector. Sharing such material will also help to build trust and demonstrate that the programme understands the market and the company's challenges.

Dedicate time. BIF's experience is that significant face-to-face discussions and negotiations with a partner company will ensure that all of their questions are addressed, and attests to their commitment in working together.
A programme – or company – which is not willing to invest time up front is unlikely to be a strong partner going forward.

If a company has the means to implement an intervention independently of a programme then additional donor support could prove anti-competitive, putting other companies working in the same market at a substantial disadvantage. Similarly, programmes should avoid distorting markets by, for example, providing large subsidies to reduce product prices.

Develop an initial understanding of each other: For companies, at this stage a meeting with a market systems development programme that is undertaking research is an opportunity to ensure that it has a good understanding of the relevant industry by providing accurate insights. It is also a chance to find out how and when the programme will be operating, and gauge whether its interests are aligned for a possible future collaboration.

Maximise the value of the research done in order to develop a market strategy: Although this is not the way it works in its country programmes, BIF has explored working directly with a company to undertake the research and analysis of a market that leads to a viable strategy. For example, when deciding on a strategy for the rural hygiene product market in Pakistan, BIF benefited from the pilot being undertaken by the hygiene company described in Case Study 2. BIF's research, which built on information from the pilot, has in turn been welcomed by the companies involved as it has enabled them to understand a market from a different perspective to the one provided by their usual market research.

We would like to be involved in the process and communications [of finalising a BIF market strategy] to understand what is planned and how we can support it."

Company that BIF has collaborated with in research on a market

Sharing of research findings can be part of strategy development or as a step within implementation. In the market strategy for rice in Malawi (Case Study 6), a survey of demand for improved seed was a vital step in kick starting any interest from companies.

Section 2 summary:

- Companies and market systems development programmes need to identify a common agenda in which they both have incentives to collaborate.
- This common agenda will help the company to progress a business initiative that has potential to benefit the wider market.
- Core business initiatives are usually at the heart of an engagement between a company and a market systems development programme.
- There is a balance to be achieved when sharing risk between a company and a programme.
- A company and a programme should expect transparency and clarity from each other on what the company incentive is for an initiative and how the programme is going to support it.
- The interests and incentives of a market systems development programme are captured in a market strategy and results chain.
- There is no typical company type for a programme to engage with, but within the context of each market the type of company will be dictated by the programme's strategy for influencing the rest of the market.
- Engagement between a company and a programme in the programme's research phase can be useful to both.

"Try to cooperate with [BIF] even if it looks like it is not going to work. Take their advice seriously and use it. Work hard and be honest with them. Attend all their meetings when invited and make sure you inform all your cooperatives members on any development. Be patient with them."

Dairy market cooperative, Nigeria

Case Study 7: The value of tools tailored to the needs of the companies in a market

Context: The Myanmar tourism market consists mostly of small local travel and tour operators with a limited number of experienced tour operators. The market also depends on a small number of highly attractive destinations, but as the country adjusts to a new political openness, tourists are being allowed access to more areas of the country. Although tourism generates high revenues, these tend to flow to very small numbers of people; local people living near popular destinations often see no benefits from tourism.

Company perspective: Often employing only a few people and informally run, the small local operators are running a low margin business with very limited resources for risky new initiatives. Despite this, the competitive environment means that they are also very interested in differentiating their service and the tourism products they can offer. Many are keen to innovate and are hungry to learn about new opportunities.

BIF perspective: Tourism is becoming a large and significant industry in Myanmar but the market risks failing to provide benefits for the poor and disadvantaged in the population, even those living at or near major tourism destinations. To help counter this trend BIF was interested in identifying and supporting the most innovative companies that could pioneer inclusive tourist products and packages; there is a clear win-win from developing new products that are both attractive to visitors but also benefit local people. With hundreds of small operators in the market, BIF felt the best way to identify and support innovation was through a competition that awards small grants. BIF also offers training prior to each round of the competition and technical assistance throughout the process and as part of the award.

Section 3. Implementing

Why this matters:

Implementation of an engagement between a company and a donor programme is not straightforward and strong working relationships between firms and market systems development programmes are essential for success.

On a practical level, once a company and a market systems development programme have established that they have a shared agenda, the next stage is to work together to agree exactly what this means in terms of practical collaboration. The following sub-sections outline lessons from BIF that may be helpful to both companies and market systems development programmes.

Use of different collaborative tools: In order to facilitate change in the private sector, a variety of tools can be used. The best one to select depends on the structure of the market, the nature of the company in question, and the risk involved in making a change.

The following are the examples of tools and approaches that BIF utilises to engage with its partner companies:

- **Technical assistance** can be provided to upskill a company to be able to deliver a new or improved product or service.
- **Grants** are a flexible way of supporting a company in a variety of ways and sharing risk, particularly for companies that do not have capital to risk on experimentation and innovation.
- **Blended support,** such as a combination of grants and technical assistance, is also possible partnership brokering by the BIF team.

> *"Our experience was such that we got the out-grower project up to a flying start through BIF who brokered collaboration with other development projects… and we rode on their platforms built over the years. This saved us a lot of time and costs."*
>
> **Company in the cassava market, Nigeria**

Some of the lessons emerging from use of these tools is that:

- Tools such as technical assistance require a lot of commitment from a company even if they are not paying towards the costs. For example, in the Myanmar garment market, factory owners were interested to see how the training and consultancy support offered by BIF would improve their factory before they would commit to paying for such services themselves (Case Study 5). The process was very disruptive for the factory where the pilot was conducted, particularly as BIF needed access to workers to be able to measure the impact. A lot of trust was required for the factory owner to take this step, and BIF invested time to build the relationship to enable it to happen. BIF also recognised that there was a large commitment for the factory involved, and so the support was provided at no cost to the company.
- The flexibility of grants is demonstrated by the way that BIF used them in the tourism market in Myanmar, an industry in which there are many small tour operators that do not have access to significant capital (Case study 7). As this example illustrates, competitions can be used to offer grants in such contexts where there are a large number of potential programme partners and there are thought to be a wide range of pro-poor innovations that could be stimulated. The competition in Myanmar, now in its second year, exceeded BIF's expectation in terms of the number of businesses that have attended the competition training and put forward proposals.

Some other resources that will be useful:

Inclusive Business hub checklist: How to develop a Partnering Agreement http://www.inclusivebusinesshub.org/checklists/

The checklist covers:

- How a partnering agreement is different from a typical contract;
- What such an agreement is needed;
- Why to use different types of agreements;
- Some of the elements of a partnering agreement.

BIF has a How to Note on data collection when a market systems development programme engages with companies (http://www.bifprogramme.org/resources)

This frames the issue and then looks at:

- Why data matters in a market systems development programme;
- Data needs and issue when working through the different stages of developing and implementing a market systems development programme.

The How to Note also includes examples of tools used by BIF.

- The tourism competition BIF is also an example of blended support. The programme offered technical assistance to operators alongside the grant. This has been very welcome and has probably been instrumental in making the competition work, as the BIF team ran seminars and workshops followed up with one-to-one company visits. This technical assistance addressed a lack of knowledge of inclusive tourism in the market and enabled the companies to be able to access and utilise the grants effectively.
- Cost-sharing is a common approach among market systems development programmes to enable a company to pilot new ways of working. The company and programme agree to share the cost of a project, often taking into account in-kind contributions such as management time. This may be seen as less of a commitment than 'hard cash', but the time of senior executives is actually extremely valuable.

"The client or the project developer must also understand what cost implication if any in partnering with the donor and what are the advantages."

Company in the rice market, Malawi

- Reducing risk is a variant on cost-sharing, in which the donor programme agrees to 'buy down' risk for new strategies. The programme is specifically underwriting the downside of a venture that may fail, as in the example of helping a company to pilot rice seed sales in Malawi (Case Study 6).

Capturing agreement on a collaboration

Entering into a formal agreement is the final step in establishing a partnership, before implementation can begin. The following are tips for both companies and programmes:

- Consider the most appropriate type of agreement for the partnership. A formal contract may be required in some cases – for example, a Service Recipient Agreement or Grant Agreement – while in others, an MoU or letter of intent may be suitable.

"In Myanmar, the team ended up having 3-5 meetings with each of the 40 factories, each clause of the agreement was explained in detail and it was agreed that only aggregated data would be shared with the wider market."

BIF project manager

- Dedicate time to the process to ensure that you develop an agreement which accurately reflects your negotiations, includes a detailed scope of work and defines contributions from both parties. This would typically involve several face-to-face meetings, and include a meeting at which each clause of the agreement is explained in detail. For example, reaching agreement on what to include in a grant agreement for the tourism operators in Myanmar was a challenging process for all involved as explained in Case Study 7. In some cases this took several months and several meetings, with patience and understanding needed by both the tour operators and BIF.
- Be sensitive to requirements around confidentiality and sharing data. Programmes will typically have requirements to report to donors, and may need access to sensitive information such as company turnover and profitability. Market systems development programmes often also have an obligation to share results widely in order to catalyse market-wide change. Consider how information can be managed to respond to this need, whilst maintaining companies' confidentiality.

"Don't leave it to vague promises or verbal agreements. Only written agreements, no matter if it's a donor, NGO or your worst enemy."

"If this is agreed and put in the contract before signing then it clears the way for smooth operations."

Companies in the pico solar and rice markets, Malawi

BIF has developed tools for assessing the extent to which companies are taking their initiative forward independently of BIF.

For example when engaging with Tour Operators in Myanmar (Case Study 7) BIF will assess:

- Is the initiative supported by BIF being fully implemented or scaled up?
- Does the company think that the initiative is commercially viable?
- Will the company keep implementing the initiative without the need for further grant or technical support from BIF
- Are there regular sales?
- Is the activity profitable?
- Has the company learned from its pilot stage [when it had BIF funding] and made relevant adjustments to the model?
- Are performance measures put in place by the business on track?
- Is the company putting in place sufficient human and financial resources to sustain the initiative?
- Are people who are intended to benefit from the initiative satisfied with it?

During implementation

Although BIF is only part way through implementation, some are lessons are beginning to emerge. Some of the issues that both companies and programmes should remain mindful of include the following:

- There should be clear project owners or champions on both sides of the partnership. It is worth revisiting this throughout the lifecycle of the project, since individuals' availability and commitment to an initiative may change over time, while new leaders and champions often emerge.
- Strong, transparent and flexible working relationships are key to success. Partners should engage regularly with each other and manage projects collaboratively.
- During implementation, consider whether the project will be resilient and able to adapt to external shocks. Changes in market conditions or government policies can dramatically affect a market systems intervention, so active identification and management of these risks from the outset of a project is important.
- Both companies and programmes must be prepared for and/or receptive to failure. The very nature of a market systems programme is that ideas are tested and, necessarily, some may not result in the change that is expected or desired. Partnerships should not be discouraged by this, rather be prepared to learn lessons and change strategy if needed.
- Watch out for misunderstandings that may arise from different timescales between the company and the programme. The market systems research and analysis process can seem long and drawn out from a company's point of view, but during implementation it may be that the programme wants to work more quickly than a company is willing or able to, for example, when negotiating an agreement.

Prepare for donor exit and company continuation

The aim of any engagement by a market systems development programme is for a partner company to achieve a commercially sustainable change. Any support offered by the programme will have exit in mind and avoid the company from getting trapped in long-term dependency on the programme.

The BIF programme is in its third year of five, and so far the programme has no direct experience of managing an exit from an engagement with a company. However, in all of its engagements with the private sector there is an explicit understanding that partnerships are time-bound.

BIF recognises the need to 'design for exit' in a number of ways. For example, BIF will rarely fund all of a project's costs; where possible companies should expect to make a financial commitment that is at least as much as that made by the programme.

BIF also recognises the importance of the successful conclusion to its engagement with a company in its accountability structures. This is built around the concept of companies taking increasingly independent action once the main activities supported by the programme are drawing to a close.

In order to monitor progress on this, BIF develops a list of indicators to measure the extent to which a partner company is able and willing to continue independently. For example, for BIF Myanmar staff meet with their tour operator company counterparts to review indicators which assess whether each company has truly 'adopted' a new inclusive tourism product (Case Study 7).

From the company perspective, normal commercial approaches will come into play to take forward a promising initiative beyond the collaboration with BIF. For example, a diversified rice miller that had been convinced by the evidence produced by BIF that there was a viable market for improved rice seed used its own resources to recruit a South African rice Operations Manager to help it scale up rice milling (Case Study 6). The company reported that they did this after BIF "opened our eyes" to the possibility of expanding their domestic purchase and milling operation.

One of the first garment factories to work with BIF in Myanmar has set up a range of new practices following the end of the BIF-funded consultancy input (Case Study 5). For example, they:

- Rolled out recommended productivity and HR innovations across the whole factory;
- Set up their own performance tracking system, agreed targets and will be holding a meeting every week to review progress;
- Run their own programme for training supervisors.

Section 3 summary:

- Companies and market systems development programmes can select from a range of tools for implementing the engagement.
- Capturing agreement is important and there are several ways to do this between a company and market system programme.
- Measurement of the results of the engagement is essential.
- The company will increasingly take action on the initiative independently of the market systems development programme.

Women workers in the garment market in Myanmar should benefit if factory owners understand that investing in worker welfare makes good business sense (Case study 5).

Conclusions

This report shares some of the lessons emerging from the ongoing BIF programme about how companies and market systems development programmes, such as BIF, can engage successfully. There are no firm conclusions that we can draw from this experience yet, but we can suggest what these experiences might mean for both companies and programmes that are seeking to engage.

The following diagram summarises the three sections of this report and represents a checklist of the key questions that companies and market systems development programmes should consider if they are to successfully engage and collaborate.

Understanding Context

Programme and Donor Context

- Is the project in line with the focus markets and interventions agreed with the donor?
- Does the project avoid engaging in restricted sectors (e.g. alcohol, tobacco, military)?
- Does the project avoid engaging in restricted products (e.g. pesticides, luxury goods, CFCs)?
- Does the project adhere to rules/norms on social issues such as child labour and exploitation?
- Does the project represent good value for money?

Establishing Relationship

Company Intererests & Incentives

- Does the company have a strategic interest in the new business model?
- Is there high potential (and likelihood) for commercial returns on investment?
- Will the project address a sustainable core business initiative and/or does it make clear strategic sense for how the business will benefit?
- Can the company benefit from other activities that the programme is doing e.g. research into the market?
- Is the support proportionate to the company size/ turnover/capacity?

Agendas aligned around catalyzing market change

Market Systems Programme Interests & Incentives

- Is there a logic to how results will be achieved?
- Is there high potential for bringing benefits to low/income groups?
- Is there potential for crowding in and systemic transformation?
- Is donor support really needed, or would the company otherwise pay the full cost themselves?
- Will the project avoid distorting the market/providing unfair advantage?

Implementing

Practical Considerations

- Are both parties comfortable withthe level of committment required, including the approach on providing data and reporting?
- Are the tools right (grant, TA, cost-sharing, etc.)?
- Is there a clear owner/champion for the project?
- Is there enough time to identify key stakeholders, understand each other, and reach an agreement?
- Is a robust formal agreement in place?
- Has a strong, transparent and flexible working relatinoship been established?
- Will the project be resilient/be able to adapt to external shocks/changes in rules?
- Are all parties prepared for/receptive to failure?
- Is there a clear exit strategy that includes sustainability indicators?

Finally, we have the following tips for those seeking to engage, and hope that this will help others to collaborate successfully in future.

Tips for a company engaging with a market systems programme
Be flexible where you can and be aware that a programme will have significant areas where it can't be flexible, such as the markets it can work in and donor procurement rules.
Look for opportunities to engage with a programme with an initiative that can have a positive effect on the whole market (as well as benefiting your company commercially).
Don't expect the programme to be interested in a CSR project – unless you can show how it helps you to achieve a core business goal and positively affect the market in which you work.
Early engagement with a programme when they are researching markets can be helpful to you – but you will need to be patient as it will not necessarily result in rapid action.
Be aware that a programme will have a range of ways that they can support you – so work with then to explore options.
Don't start an initiative that would require long-term support from the programme – becoming dependent on a programme means you risk difficulties after the programme ends.

Tips for a market systems programme engaging with a company
Think a lot about incentives when approaching a company – what commercial reason will they have to engage with you?
Be cautious about partnering with companies if they are not willing to invest, share risk and/or commit to results measurement.
Be open about why you are offering support and in particular how you expect this to affect the wider market (even if you fear it might put a company off).
Try to understand how companies influence and learn from each other when designing a strategy – this will help you to decide whether to support an individual company.
Don't be led by your preference for any particular tool – a business will know best what they need.
Work hard on getting an appropriate agreement in place with a company – it may take time but will avoid problems later.

Useful links

BIF Programme www.bifprogramme.org

Know-How page on partnership for inclusive business: http://www.inclusivebusinesshub.org/know-how-partnerships-for-inclusive-business/

BEAM Exchange www.beamexchange.org

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