# Markets and the Private Sector

**This paper describes our policy work on market systems and the private sector.[1] It explains why we are working on this issue, outlines our aims and approaches, and sets out our recommendations.**

## What is our overall goal?

Our overall goal is that economic growth is more sustainable, inclusive and equitable. We want market systems and the private sector to work for people living in poverty enabling them to access the opportunities, technologies, products and services that will improve their livelihoods and ultimately their well-being.

## Why is this issue urgent?

**Growth** has become a high priority in the current development agenda. This is partly because:

- The economic landscape in low and middle income countries is changing.[2] Previously stagnant economies are becoming more dynamic with increasing capital flows, growing young workforces and expanding middle classes.
- The continued growth forecasts for many developing economies, like those in sub-Saharan Africa, mean businesses, donors and governments are focusing their resources and attention on creating new opportunities.

These changes could enable large numbers of people living in poverty to get better access to the jobs and incomes they need to have a secure and decent life. However, not enough is done to address poverty and unequal growth. Lessons from countries like Peru[3] demonstrate that growth will not be inclusive unless there are deliberate measures taken to ensure it is. Developing economies are not getting enough support to pursue their own models of inclusive and more sustainable growth.

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[1] The paper considers 3 inter-related areas: in. economic growth (the big over-arching context) ii. market system development iii. private sector. It takes our lens from a wide view and narrows it down.
[2] Realizing Africa's Wealth, UNDP May 2013; Creating value for all: UNDP, July 2008; Africa at Work: Job Creation and Inclusive Growth, Mckinsey Global Institute, August 2012, ADB 2013 forecasts
[3] See http://www.peruviantimes.com/23/undp-regional-inequities-persist-in-peru-despite-economic-growth/5865/

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**Markets are not delivering for the poor.**
Markets are the main mechanism by which economies allocate resources. When they function well they can deliver goods and services efficiently to large numbers of people. When they fail they can exacerbate inequality. In our experience in agriculture, energy, and urban services (such as water, sanitation and waste):

- The markets that those in poverty depend on typically don't work well for them. The reasons for dysfunctions in market systems include a complex range of institutional, regulatory, socio-economic and even cultural factors.[4]
- Access to markets can be non-existent or limited, or on unequal terms. Technologies, products and services needed by the poor can be prohibitively expensive. Equally, returns on their goods and services are often very low.

The situation is even more acute for women and other marginalised groups who work, produce, process or trade to support household livelihoods. They often lack the bargaining power, status, connections and information that would enable them to get a decent return for their efforts. The complex power dynamics and social barriers affecting their access and participation are often ignored in policies and programmes.

**Private sector: 'the new donor darling'.**
Businesses of all shapes and sizes are key players in the market systems that are important to those in poverty. Typically their activity is at least 80% of the economy in low income countries.[5] What businesses do and how they work can be critical to development processes. Yet despite this central role until relatively recently the private sector was neglected by the development sector. This has changed quite dramatically. Far from being ignored the private sector is now described by some as "the new donor darling".[6]

A proliferation of initiatives and schemes are now engaging the private sector to deliver development outcomes.[7] Many of these fall short of what is needed to achieve inclusive markets, in part because:

- There is not enough attention on the complexity of the actual market systems that people affected by poverty rely on. This means development initiatives can fail to take account of key players, public and private, and the critical issues that affect the functioning of those systems.
- The private sector is not 'homogenous'. There are many enterprises of all sizes and types, including micro and small enterprises in the informal sector, which need to be the focus of development efforts. The 2013 World Development Report highlights that the private sector is mostly made up of small and micro enterprises. In a sample of African countries over 85% of people are involved in small business and most new jobs come from that sector.[8]
- Yet much of the attention is focused on the larger-scale (often multi-national) private sector because of their potential 'reach', with many 'flagship' partnerships between development agencies and companies.[9] Although these are providing some important

[4] Typical factors are well-documented e.g. UNDP Unleashing Entrepreneurship2004 UNDPReport2004
[5] For example, based on World Bank Database and OECD International Development Statistics, the private sector in 6 countries in Southern and Eastern Africa accounts for $75 billion of their $93 billion GDP.
[6] Investing in the Business of Development report N-S Institute and CCIC
[7] For example, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205883/new-alliance-factsheet.pdf
[8] Cafod 2013 Thinking Small 2
[9] See http://partnerships.businessfightspoverty.org/case-studies/

examples of how corporate incentives and poverty-reduction aims can align, evidence of impact is still scant.

- There is a tendency to treat the large-scale private sector as the solution to poverty reduction. Private sector programmes often don't take a holistic approach and if they are not supported by other investments in for example capacity, knowledge and governance, and sometimes social safety nets, then the poorest are unlikely to benefit. This is particularly true in marginalised areas where poverty is deeply entrenched.

## What are our aims?

We want to convince policy makers that developing inclusive markets in agriculture, energy and urban services can contribute to poverty reduction and more sustainable growth if it is:

- Focused on those market systems that are important to large numbers of people in poverty.
- Engaging a broad range of players: public and private, small and large, marginalised and powerful, in genuine dialogue and planning.
- Supported by appropriate regulation and investment in a strong enabling environment.
- Within the current and future natural resource constraints of those systems.

Inclusive market development needs to involve producers, consumers and workers, especially women, and others in the so-called 'Base of the Pyramid', as key players in bringing about change. They need to participate in developing the strategies for market transformation with other actors. These approaches should build the capacity of market players, including the most marginalised, to adapt to changes like external price fluctuations. And they should strengthen their resilience to cope with shocks and stresses such as political instability or unexpected weather events.

We want new mechanisms for enabling and incentivising governments to create conducive environments for a broad spectrum of the private sector. This means measuring the conditions for investment in the sectors, like agriculture, that are most important for the type of economic activity that can deliver poverty reduction.

## How are we doing this?

**We facilitate market system change**

- We are working with government, Non-governmental Organisations (NGOs) and private sector partners to deliver change in market systems. Our approach, Participatory Market System Development (PMSD), engages key actors in processes of dialogue and action. For example, in Zimbabwe we are facilitating the horticulture market system to benefit over 7000 small-scale farmers, over 70% are women. This includes working with companies and the government to address farmer access to critical inputs and advisory services.[10]

**We lead practice change**

- We encourage other development agencies to adopt and adapt our approach to market system development. The PMSD Roadmap, available online, is supported by training and

[10] This is a new project, for further details please contact Hopewell.Zheke@practicalaction.org.zw

mentoring. We share our experience of PMSD at world class conferences and events. Our reputation for practical on the ground experience and our genuine focus on learning has seen take-up by other international agencies, such as Christian Aid and UN Habitat for Humanity.

- As part of a consortium of international agencies we are creating a new model for 'impact investment'. It goes beyond measuring the social impacts of investments made in target enterprises in agricultural value chains and measures the wider systemic changes that result from the investment.

- We co-ordinate a global practitioner learning community called MAFI (the Market Facilitation Initiative) which is part of the SEEP Network, the largest international network on inclusive enterprise and finance. MAFI uses the experience of those working on the ground to make step changes in learning and practice. An example is innovative work on systemic Monitoring and Evaluation (M&E).[11]

**We influence development strategies and policies**

- We are influencing the World Bank's indicators for Benchmarking the Business of Agriculture (BBA). As a member of the African Smallholder Farmers Group[12], we have set out the conditions that we believe are necessary for smallholder farmers to benefit from investments in agriculture. We are asking for more recognition of smallholders in BBA and a focus on enabling environments that will deliver sustainable agriculture not just economic growth in the sector.[13]

- In the UK we are taking a leading role in the Bond Private Sector Working group, to advocate for the post-2015 Sustainable Development Goals to promote more inclusive and equitable growth. We are calling for the Department for International Development's (DFID) work on markets and private sector development to concentrate on economic opportunities for the most vulnerable and marginalised, in particular facilitating change in market systems that are most important to those living in poverty.[14]

## What drives our work?

Practical Action understands that if markets are working effectively they can be central to enabling people to meet their needs and achieve the livelihoods they want. The majority of the 2.5 billion people living on incomes of less than USD$2/day[15] are connected to markets as producers, consumers or workers. Even for those in marginalised rural areas or politically inconvenient urban slums, markets provide opportunities: to increase their well-being and to prosper through better incomes or job prospects, and to access important technologies, products and services.

We believe in ***technology justice*** – that all people have the right to decide, choose and use the technologies they need for a decent life. Inclusive market approaches (such as PMSD) are an important strategy to address the current state of technology inequality. If poor people are fully involved in processes that shape market systems those markets are more likely to innovate and deliver affordable and appropriate technology that meets their needs.

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[11] For more details on this see SEEP Systemic M&E paper Monitoring and measuring change in market systems
[12] The African Smallholder Farmers Group (ASFG) is a network of international organizations that share a common commitment to working with and learning from smallholder farmers in Africa.
[13] For more information see our Framework report http://www.asfg.org.uk/framework-report/overview
[14] Bond Private Sector Working Group Position Paper 2013
[15] http://www.worldbank.org/en/topic/poverty/overview

Technological innovation in agricultural, energy, water and sanitation systems needs to be relevant to the local context and must fully engage the poor along with other key actors like researchers, manufacturers, retailers and policy makers. Facilitating these systems to respond to change and adapt to an uncertain environment is central to our organisational model. We value investment in processes that build the capacity and resilience of poor people to make informed choices in complex and dynamic environments.

Businesses can be a means of improving the choices and opportunities for marginalised and excluded people. To reach large numbers of producers or consumers this sometimes means working with corporates. Our Private Sector Guidelines[16] shape and guide all our work with large companies. These mandatory guidelines ensure that the engagement will enable us to achieve our strategic objectives, which describe the changes we want to see for those in poverty in the contexts in which we work. The guidelines ensure that our corporate engagements are rooted in achieving system change, not merely pursuing funds or profile that may be attached to a corporate engagement. They also ensure we thoroughly assess companies and understand the potential risks to poor people and to Practical Action's reputation for putting a fairer and more just world above all else.

## What are our recommendations?

**Economic growth policies and programmes need to consider that:**

- National governments should **evolve their own growth pathways**, developing key sectors like agriculture, energy, water and sanitation with models appropriate to their contexts, ensuring participation of the main players including marginalised groups.
- Investment in economic growth and private sector programmes must have clear policies and strategies that **target the causes of inequality**. Development initiatives need specific objectives and indicators for gender, power and governance and environmental sustainability.
- Growth should be **measured by factors in addition to GDP** such as well-being indicators.

**Market system and private sector development policies and programmes should:**

- Prioritise those market systems that can offer **opportunities for significant numbers** of people living in poverty.
- **Improve access for women** and other marginalised groups to the opportunities, technologies, products and services they need.
- Focus on a **broad spectrum of private sector**, particularly micro and small enterprises (including farmers) and domestic companies, and engage with the key issues and actors in the system.

[16]For internal use only see: Private Sector Guidelines

- **Increase the voice and power** of small-scale domestic actors, including the creation of platforms to raise issues with policy makers and securing support for their organisations (such as producer associations or groups).

- **Invest in processes** that build the capacities of market system actors to create trust and transparency and enable them to manage and adapt to change.

- **Strengthen the enabling environment with and for** market system actors to enable them to respond to opportunities and challenges in those sectors, like agriculture, that are most important for the type of growth that delivers poverty reduction.

- **Measure changes in the system** to better understand the effects of development interventions in improving resilience and adaptability of the whole market system and of the most marginalised actors in particular.

## Find out more

**Key documents and links**

Participatory Market System Development Roadmap: pmsd-roadmap
Mapping the Market: practicalaction.org/mapping-the-market
USAID Best Practice Paper participatory-market-system-development-best-practices
SEEP Systemic M&E paper Monitoring and measuring change in market systems
African Smallholders Farmers Group Advocacy on Benchmarking the Business of Agriculture

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