



How can markets work for the poor? What approaches deliver impact at scale? Meeting Summary

Tuesday 17th March 2009, 17.30 to 19.00 followed by reception, **The Brewery**, London EC1Y 4SD

Speakers:

- **Alan Gibson**, Director and Founder, Springfield Centre
- **Dr William Kwesi Derban**, Head of Community Relations, Emerging Markets, Barclays
- **Dr Chris West**, Director, Shell Foundation
- **Jonathan Mitchell**, Programme Leader, Tourism Programme, Overseas Development Institute (ODI)

Chair:

- **Simon Maxwell** – Director, Overseas Development Institute (ODI)

Summary: *This meeting, the third in the series on Harnessing the Private Sector for Development Impact, challenged the development and business community to change their mindsets, act differently, and raise their sights to a higher scale of impact. The theme of the meeting was how poverty can be reduced *at scale* by making commercial markets work better for the poor. Four different approaches were presented: ‘Making Markets work for the poor’ (Alan Gibson), commercial finance (Dr William Kwesi Derban), enterprise solutions (Dr Chris West) and value chain development (Jonathan Mitchell). Each considered a rather special blend of development and business ingredients that are needed to deliver results at scale. Practical recommendations on these key ingredients emerged, along with some degree of frustration that the current development and business players are wasting opportunities by sticking to old norms.*

Alan Gibson, Director of the Springfield Centre, started the event outlining the approach known as ‘Making Markets Work for the Poor’ (or market systems approach, or M4P). It is an approach that is about understanding the world and trying to change it aimed at development agencies and governments. It focuses on the *system* that surrounds market operations – the rules and norms – and seeks to achieve systemic change so that the core operations of supply and demand work for the poor, inclusively and effectively (the system is illustrated as a ‘doughnut’ in [Alan’s presentation](#)). The difference with traditional development approaches is shown diagrammatically and can be summarised as:

- Traditional: What are the problems of the poor? How can we solve them?
- M4P: What are the problems of the poor? Why isn’t business solving them? What changes in the market system can be catalysed so that business does solve them?

To illustrate the difference, Alan used 2 examples of businesses that sought to support Small and Medium Enterprises (SMEs) in Uganda to improve the information environment through mass media, specifically radio. The first, using subsidies, harnessed 10 radio stations, but had only a ‘puff of impact’ as the services stopped once subsidy ceased. The second started more slowly and smaller, working with commercial stations to find ways for

them to provide SME support. But over time its reach grew to 30 stations, sustained and without donor funding. The first aimed to *provide* SME services, while the second saw the task as changing the commercial media to work better for SMEs.

Dr William Kwesi Derban, Head of Community Relations, Emerging Markets, Barclays outlined Barclays approach to providing banking services to the unbanked, which operates at three levels (outlined in the [Powerpoint](#)):

- **The traditional sector:** no formal regulation/ institutions exist but local and traditional systems. Barclays provides support to improve and expand these systems mainly via its community investment programmes e.g. encourage village savings by putting cash into a locked box to facilitate savings.
- **The semi-formal sector:** here Barclays supports micro-banking, such as by building capacity of a network of Susu collectors (money keepers) in Ghana who offer banking services in the realms of 50 pence saving per day. Support helps them to improve services, onlend funds, and increase scale of operations.
- **The formal sector:** Barclays now has 590,000 people with low income accounts across Africa, providing a range of formal products appropriate to those on low income.

The experience highlights four **challenges in going to scale**:

1. Insufficient knowledge of the informal market
2. The market is unorganised yet dynamic
3. Ensuring positive social impact depends on other externalities
4. Getting the right talent - building capacity

And four **lessons**:

1. Do not assume anything, ask questions and find out what people want and use
2. Build on what exists where ever possible rather than create from new
3. For finance Credit = debt; encouraged appropriate behaviour and products
4. Ensure the provision of other services, not only financial services

Dr Chris West, Director of the Shell Foundation explained that delivering their mission to develop, *scale up* and promote enterprise based solutions to challenges arriving from energy and poverty and energy and environment, means focusing on a few issues and tackling them in a market-based way. Chris illustrated the enterprise based approach with the example of [Grofin](#), which aims to tackle the 'missing middle' in financing for SMEs in emerging economies, between the micro-finance and venture capital. Founded in 2002, it combines business support with access to finance. It now has \$250 million of investment funds under management in 8 countries, (the largest investor in the SME sector in Africa), with 98% of businesses doing well, 4,000 jobs created and maintained today and supporting around 30,000 livelihoods. A different example is '[Breathing Space](#)' the Foundations partnership with [Envirofit International](#) to design and market a new range of improved stoves to tackle the problem of indoor air pollution, which are now on the way to selling to millions.

Many **important lessons** have been learnt from the years of experience and \$15-20 million that has been invested:

1. Success comes from operating like an entrepreneur in a development space by shaping a business model to fit the needs of the market. A 'venture philanthropist' combines business DNA with development DNA, incubates and nurtures entrepreneurial teams, takes risk, invests with capacity not just money, and has patience.

2. Selecting the right partners to go to scale is critical. But such partners did not exist, and needed to be created.

Chris laid down a clear challenge, concluding that there are very few organisations equipped to operate like venture philanthropists: development organisations lack the risk-taking and entrepreneurial approach, and large corporations are not actually very entrepreneurial. A different blend of enterprise and development skills is needed to take structured risk in enterprise solutions that work.

Jonathan Mitchell, Programme Leader, [Tourism Programme](#), Overseas Development Institute demonstrated the old failed approach to harnessing tourism for the poor, and the new approach developed by ODI to work with the mainstream sector and deliver impacts at scale.

As an example of failure Jonathan used a community tourism project on the Wild Coast of South Africa. It invested €12.9m to develop community tourism, but had farmers running lodges, technical assistants doing European marketing, and no role for the private sector. Net result was almost completely empty lodges, about 100 jobs for about 4 years and a complete collapse at the end of the project. Jonathan contrasted this with a pro-poor tourism intervention in Vietnam, where assessment of the entire value chain showed that linkages between tourism and poor people were already strong. The sector was constrained by hoarding of development permits for beachfront land. The recommended regulatory change was made, new hotels built, providing 5,000 jobs and \$3billion of investment.

The new approach (outlined in a new ODI [Briefing Paper](#)) on use of value chain analysis of scale up poverty impact in tourism) focuses on working with the mainstream, and looks at how the entire tourism value chain links to poor people. Results comparing pro poor impacts from 10 destinations (see graph in [Jonathan's presentation](#)) show how linkages vary. This work provides the basis for assessing where changes in the market system can be made that will unblock impacts for the poor at scale.

Finally, Jonathan summarised some **lessons learnt**:

- If we want to tackle poverty at scale we have to deal with business at scale. I.e. in tourism that means a move towards large, commercial destinations and working with large tour operators;
- Don't make assumptions about what could work, interventions have to be based on market assessments;
- Business and communities often 'get it' some development agencies struggle;
- Barriers to pro-poor impact are not always obvious (see Vietnam example).

Open Discussion

The following discussion explored some key themes and challenges:

- Debate about the scale of the 'missing middle' for SMEs, and whether this is the fundamental issue here. The main barriers to SMEs were described as the legal framework, skill set, and lack of finance, with Chris West pointing out that most SMEs (such as a garage or shop) can only access finance from 'friends, family, fools and foundations' and that is what needs to change.
- A sense of frustration that donors and enterprises are missing out on opportunities because of rigid ways of thinking. Examples were given of a veterinary service that is struggling to go to scale via franchising, and another commercial idea facing a 2 year delay to get funding for feasibility assessment in India. Commercial finance institutions are not supporting viable small businesses, while donors are 'not asking the right questions' about the most basic issues of enterprise viability.

- The role of soft funds in helping catalyse entrepreneurial solutions. This emerges as critical in a forthcoming review of business models that work for the poor by [Monitor](#) in India. But critical assessment of business models is also needed. The broad principle is to look hard at markets and customers, while also looking in detail at specific commercial issues such as piggybacking on existing systems rather than building own proprietary systems. Experience is showing that it can take 10 years to go from starting work at the bottom of the pyramid to achieving scale.
- Debate about the informal economy, with some suggesting that it is 'the future'. As examples from Barclays showed, the informal economy certainly should not be assumed to be small, even though it is not formalised.

Amidst the debate, consensus emerged around some practical lessons in developing enterprise solutions that deliver impact at scale:

1. Tackle *systemic* problems
2. Don't just throw money at a problem. Building capacity and entrepreneurialism is key.
3. Partners are critical, and partners with the right approach may need to be developed. Find change agents.
4. Models that work often need soft funding at first. But this funding needs to look hard at the business models.
5. Barriers to business, particularly SMEs need to be tackled: access to capital, skill sets, and regulatory constraints.
6. A long-time frame is needed. Though enterprise approaches can go to scale over time, the corollary is that they tend to start small and need time to grow via markets.

Despite substantial progress, frustration remains that mindsets need to be changed, and the consensus seemed to be that a new blend of development and enterprise skills is needed, as these approaches are rolled out further.