From BDS to Making Markets Work for the Poor

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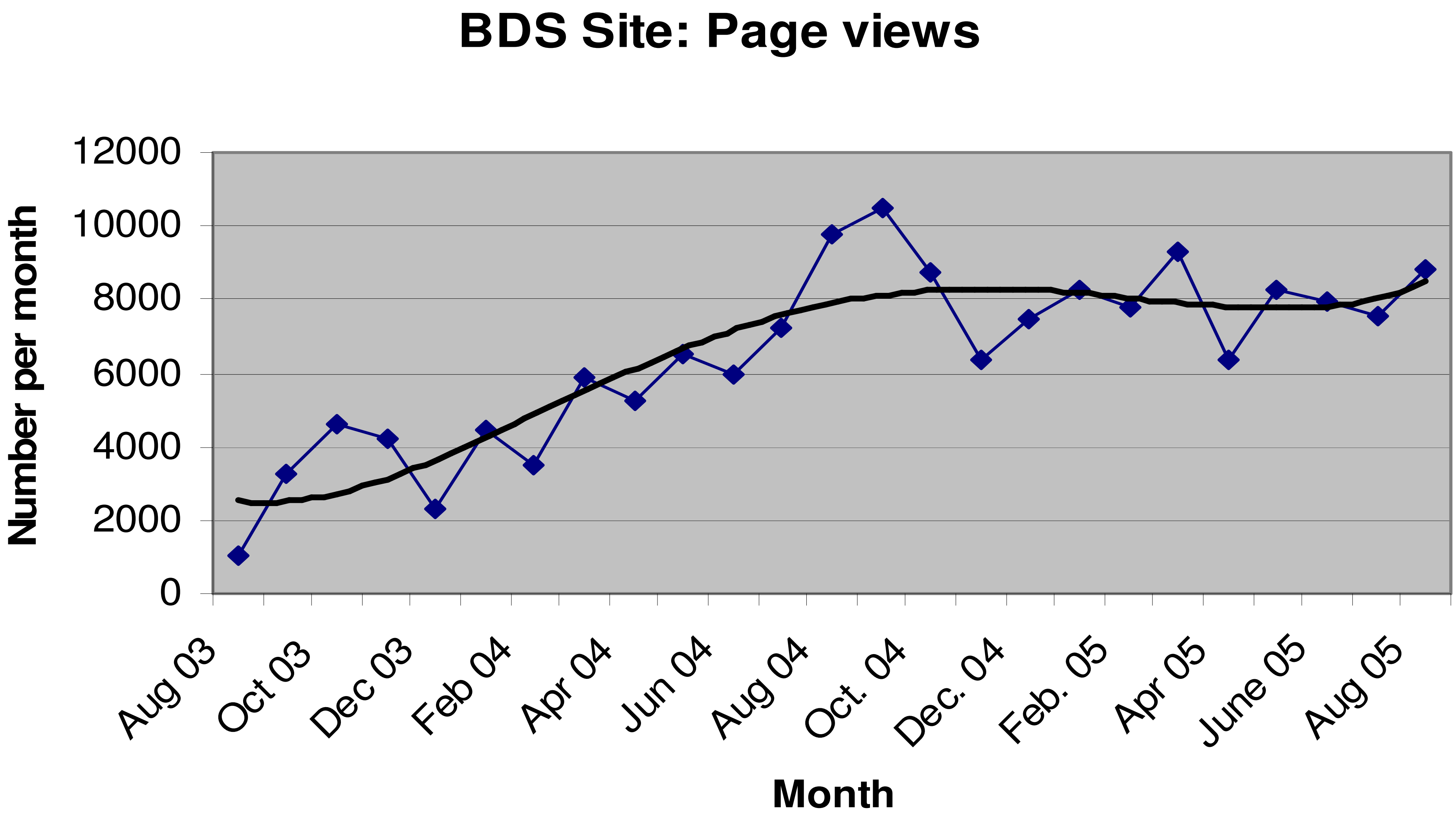
Some trends during the last year

- Move to systems approach in financial services, value chains, MMW4P – some convergence with agriculture and others
- Move ‘up-stream’ into business environment
- Questioning the value of focusing on ‘small’ – or any target group in PSD
- Move towards budget support, SWAPs, Challenge Funds etc
- Increasing interest in roles of large companies – Prahalad, CSR etc.

Some BDS developments

- Dec. 2004: CGAP Pink Book: “Comply with Blue Book standards on BDS” (p. 16)
- Many new Blue Books on related themes
- SED Journal issue on Developing service markets in rural areas, June 2005
- IT Publications book on Mapping the Shift in BDS, by Harper and Tanburn, mid-2005
- Page views on www.bdsknowledge.org level around 8,000 per month

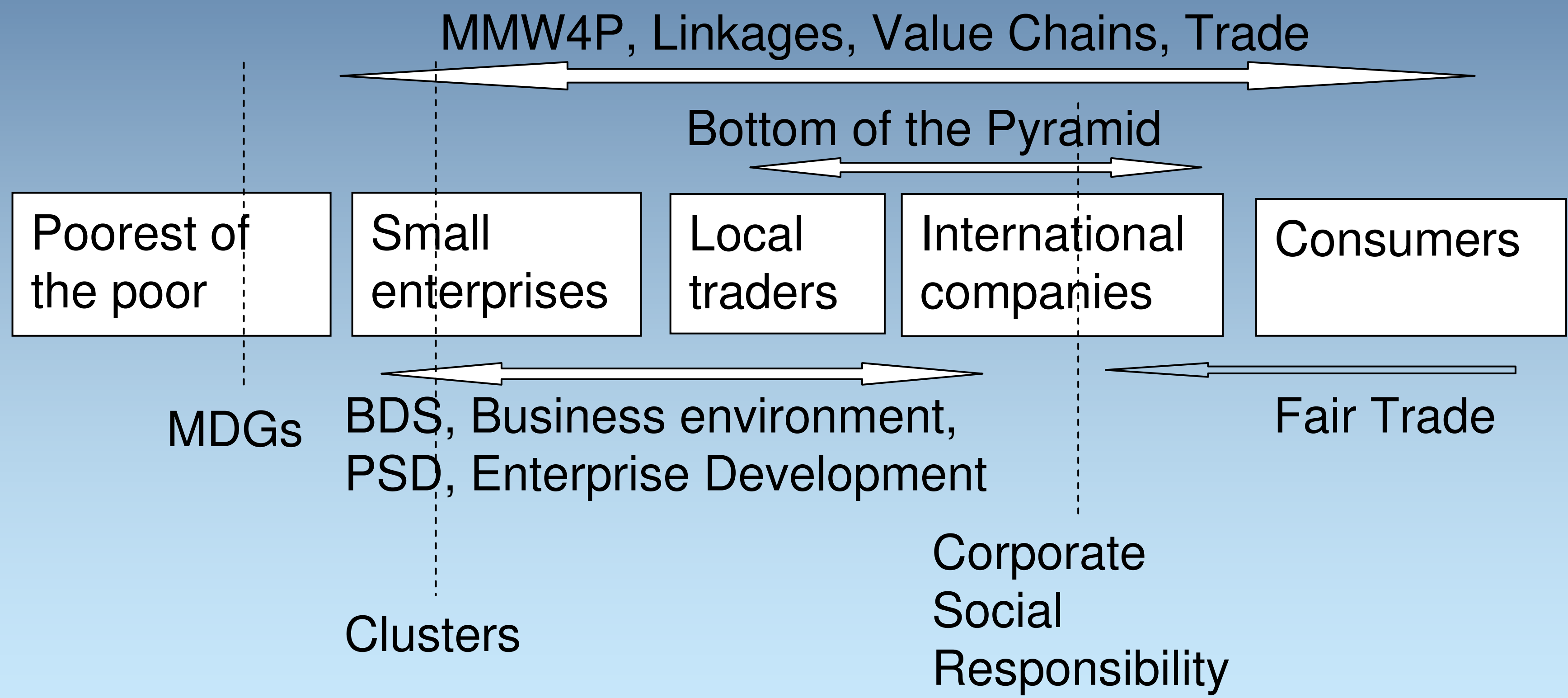
www.bdsknowledge.org views



GTZ/OECD Paper on BDS, 2005

Mentions in the Seminar Reader	**2003**	**2004**
Total number of project examples	39	45
Poor population, small-scale farmers or MEs as a main target	20	25
Number active in agriculture	14	19
Number in embedded services	4	10
Number focusing on women	2	4

How wide can we go?



What’s happened to BDS MD?

- Disruptive technology: requires high overhead, long-term view, quality
- Difficult (not a good message!) Needs skilled and passionate people
- Too technocratic for donor tax-payers
- “Too limited”, “new-liberal” etc. as picture on impact is confused

Recent performance: EBAS #1

€33m matching grant programme, EC, 1999-2003

Total value of awards	€21.96m
Ave. award to private firms	€21,528
Average size of recipient firms	Employment 132 Turnover €4.3m Fixed assets €2m
Main areas of support	Management 25% Marketing 15%
Average daily fee	€409

Source: Final evaluation of the EBAS Programme (EU-ACP Business Assistance Scheme), Draft Final Report, Integration, April 2005.

Recent performance: EBAS #2

€33m matching grant programme, EC, 1999-2003

Strengths:

- Innovative, courageous approach
- Relevance for ACP SMEs
- Fast response
- High operational efficiency
- Practical – beneficiaries made good use of services
- Considerable impact

Source: Final evaluation of the EBAS Programme (EU-ACP Business Assistance Scheme), Draft Final Report, Integration, April 2005.

Recent performance: EBAS #3

€33m matching grant programme, EC, 1999-2003

Weaknesses:

- Too ambitious, too many objectives
- Outreach too small
- Virtually unknown in some countries
- Lack of proximity to clients
- Little impact on BDS market development
- Limited focus on innovation

Source: Final evaluation of the EBAS Programme (EU-ACP Business Assistance Scheme), Draft Final Report, Integration, April 2005.

Recent performance: WB Kenya #1

$21.8m voucher programme, WB, 1994-2002

Nearly 35,000 MSEs received training

But the vouchers were worth up to 90% of value of training

The programme was managed by four different Ministries during implementation

Did the priority objective shift to market development during implementation?

Source: Project Performance Assessment Report, Kenya MSE Training and Technology Project, OED World Bank, June 2005.

Recent performance: WB Kenya #2

$21.8m voucher programme, WB, 1994-2002

Outcome	Moderately unsatisfactory
Sustainability	Unlikely
Institutional Development Impact	Modest
Bank performance	Unsatisfactory
Borrower performance	Unsatisfactory

Source: Project Performance Assessment Report, Kenya MSE Training and Technology Project, OED World Bank, June 2005.

One evolution: Making Markets Work for the Poor #1

- New Institutional Economics: Lack of information increases risks and costs of transactions. Institutions, or the ‘rules of the game’, evolve to reduce these costs
- 2000: DFID/OPM publish MMW4P framework: change markets to increase participation by poor, on terms that are of benefit to them. Talk of market systems and sustainable change.

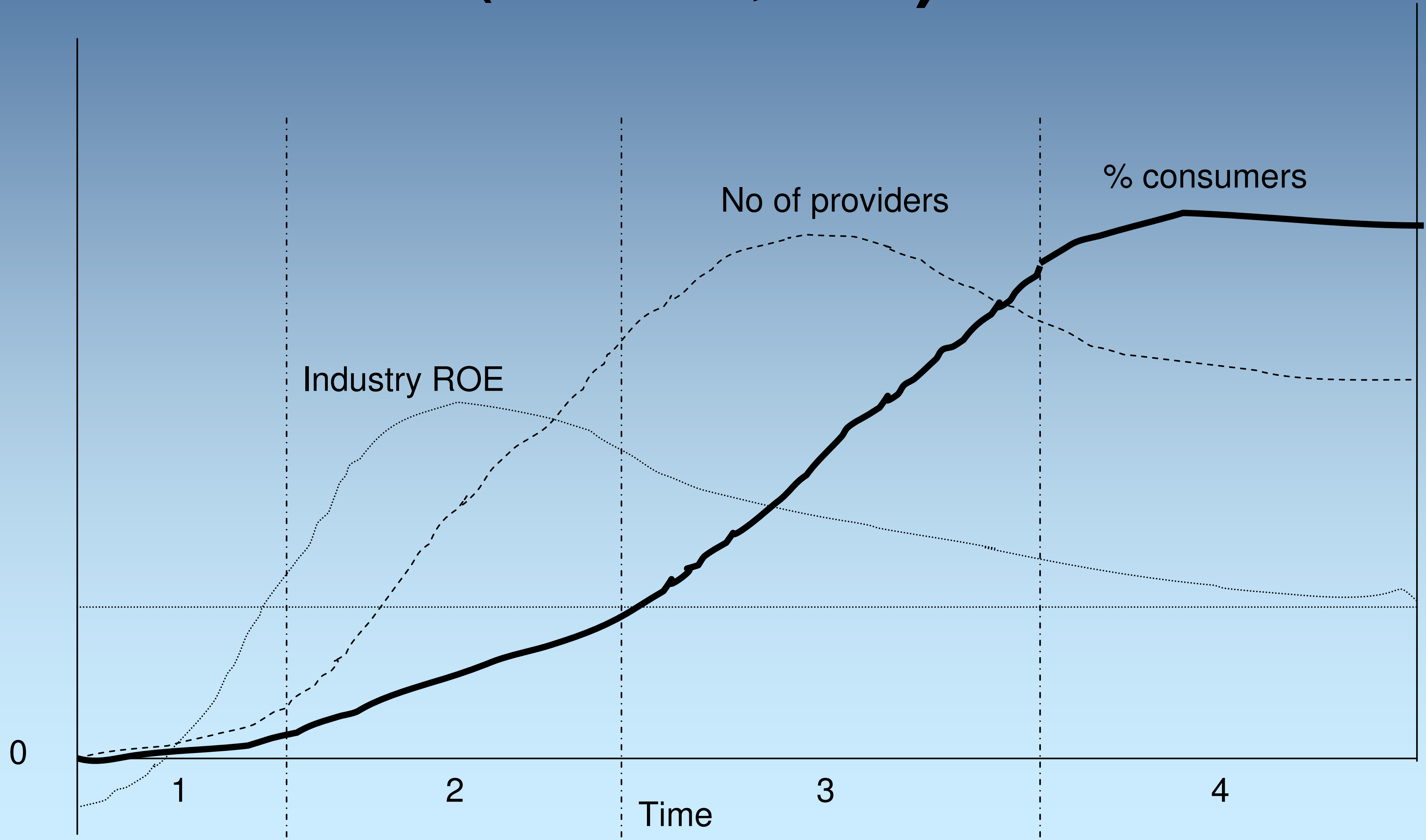
One evolution: Making Markets Work for the Poor #2

- Late 2003: Sida publishes agency-wide policy statement entitled MMW4P: “Sida should avoid creating market distortions in its support to private sector development”. Examples cited in agriculture, finance, legal systems, education, health, housing
- Also in 2003, DFID/ADB launch research project in SE Asia www.markets4poor.org ($2.4m) – agricultural value chains, rural-urban linkages, land and labour markets

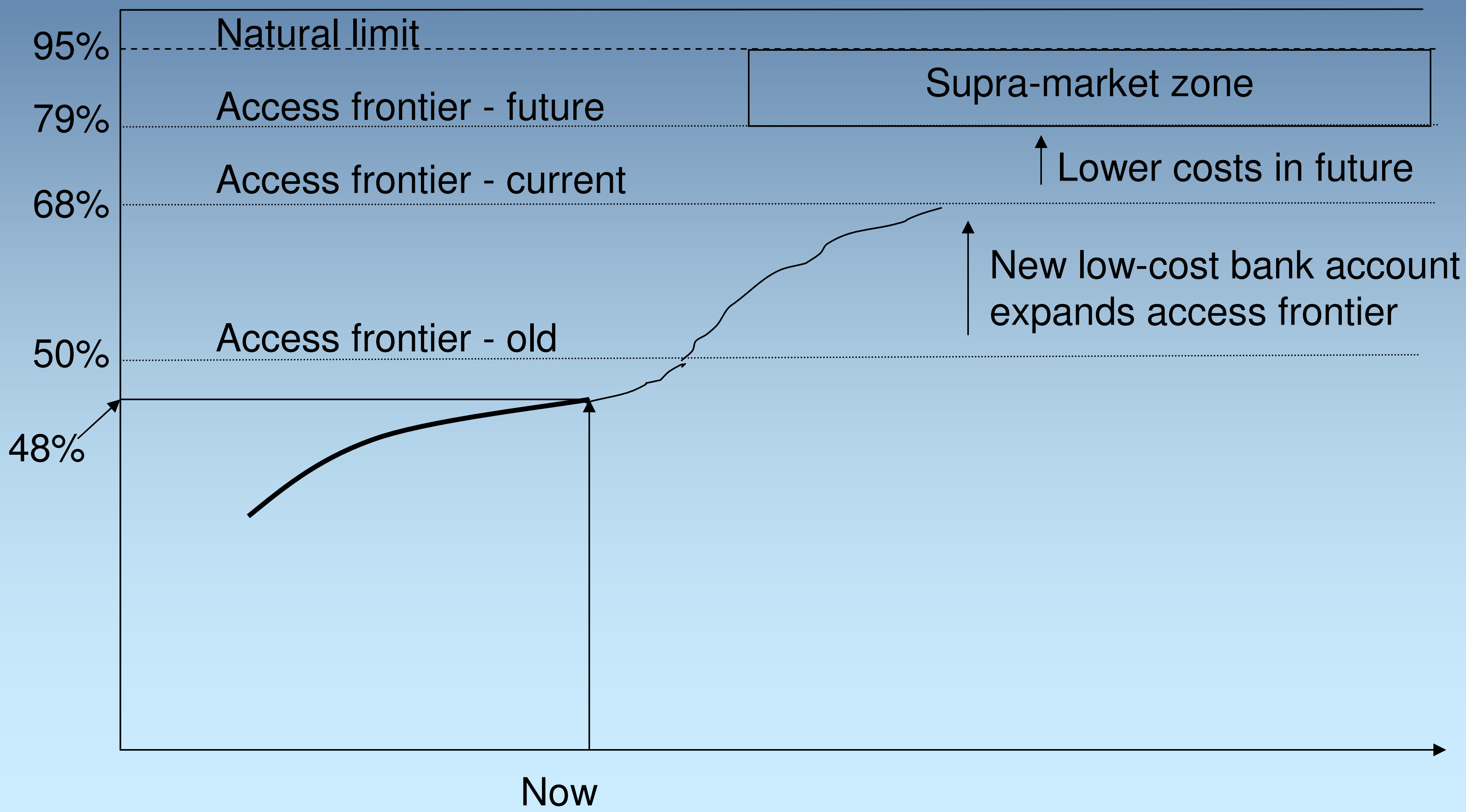
One evolution: Making Markets Work for the Poor #3

- July 2004: Ferrand et al issue paper on MMW4P under ComMark (DFID) banner: The Remote Reformers vs. The Impulsive Interveners
- Feb. 2005, DFID/ADB organise a MMW4P Conference in Manila
- Sida re-issues its policy, now called: “Wealth of the Poor: Eliminating Poverty through Market and Private Sector Development” (copies from www.sida.se)

Stylised market development over time (Porteous, 2005)



Mapping of transaction bank accounts, South Africa (Porteous, 2005)



Proposed MMW4P methodology
(Porteous again)

- Define the market
- Determine current usage levels and trend
- Segment non-usage to assess the current access frontier and natural limit
  - Those who choose not to use
  - Those who could use now / in future
- Assess position of the future access frontier in the medium term
- Identify those in the supra-market group

MMW4P international examples

Schools in South Asia #1:

- 61% of pupils in private unaided sector in Hyderabad District, in 1,000 schools
- Ave. fee $3 pm; 15% have concessionary places
- Student/teacher 29:1, 74% have extra-curricula activities (sport, drama, competitions etc.)
- Profit margin c. 25%, 80% of parents did not consider who owned the school to be important
- Tight regulation largely bypassed

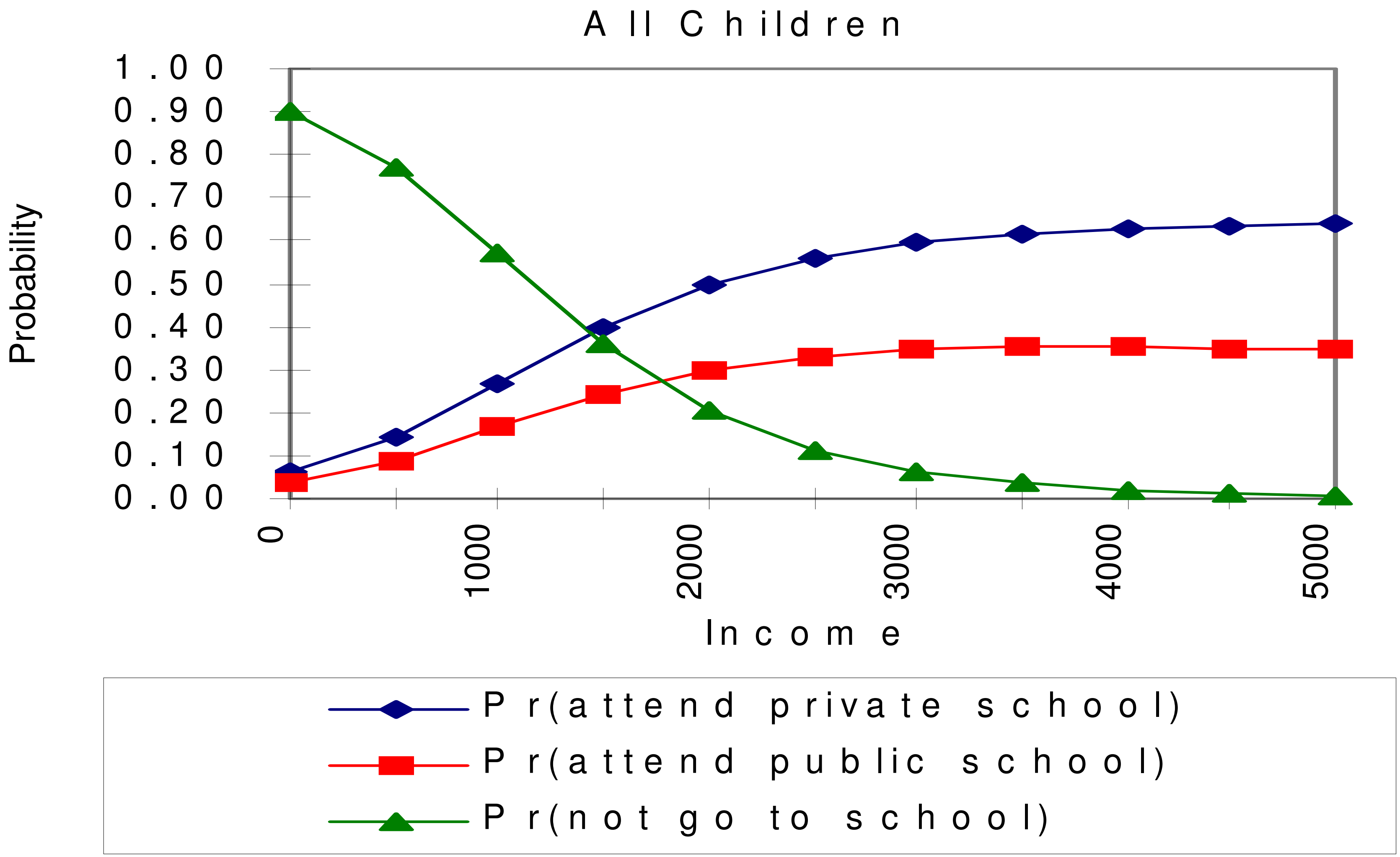
Source: Private schools for the poor: A case study from India 2003, by Tooley and Dixon. www.cfbt.com

Schools in South Asia #2

Typical payments, Rupees	Official	Unofficial
Sanitation	2,454	500-1,000
Inspection	0	2,000-8,000
Property tax	2,500	6,750
Professional tax	2,500	500
Application for recognition	25-50,000	10-50,000

Source: Private schools for the poor: A case study from India 2003, by Tooley and Dixon. www.cfbt.com

Schools in South Asia #3



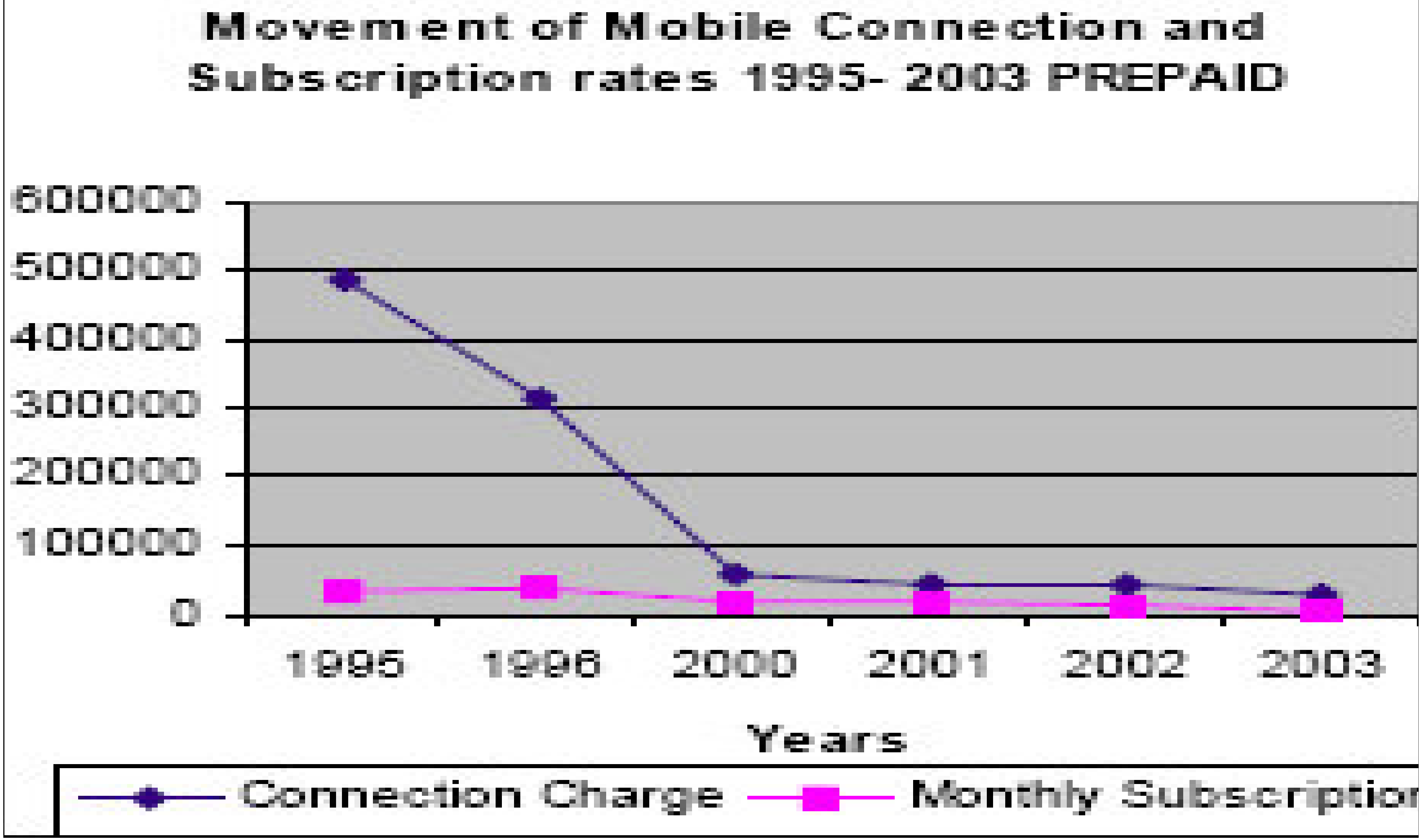
Source: School quality, school cost, and the public/private school choices of low-income households in Pakistan, Alderman et al, World Bank, 1996.

MMW4P Uganda - Education

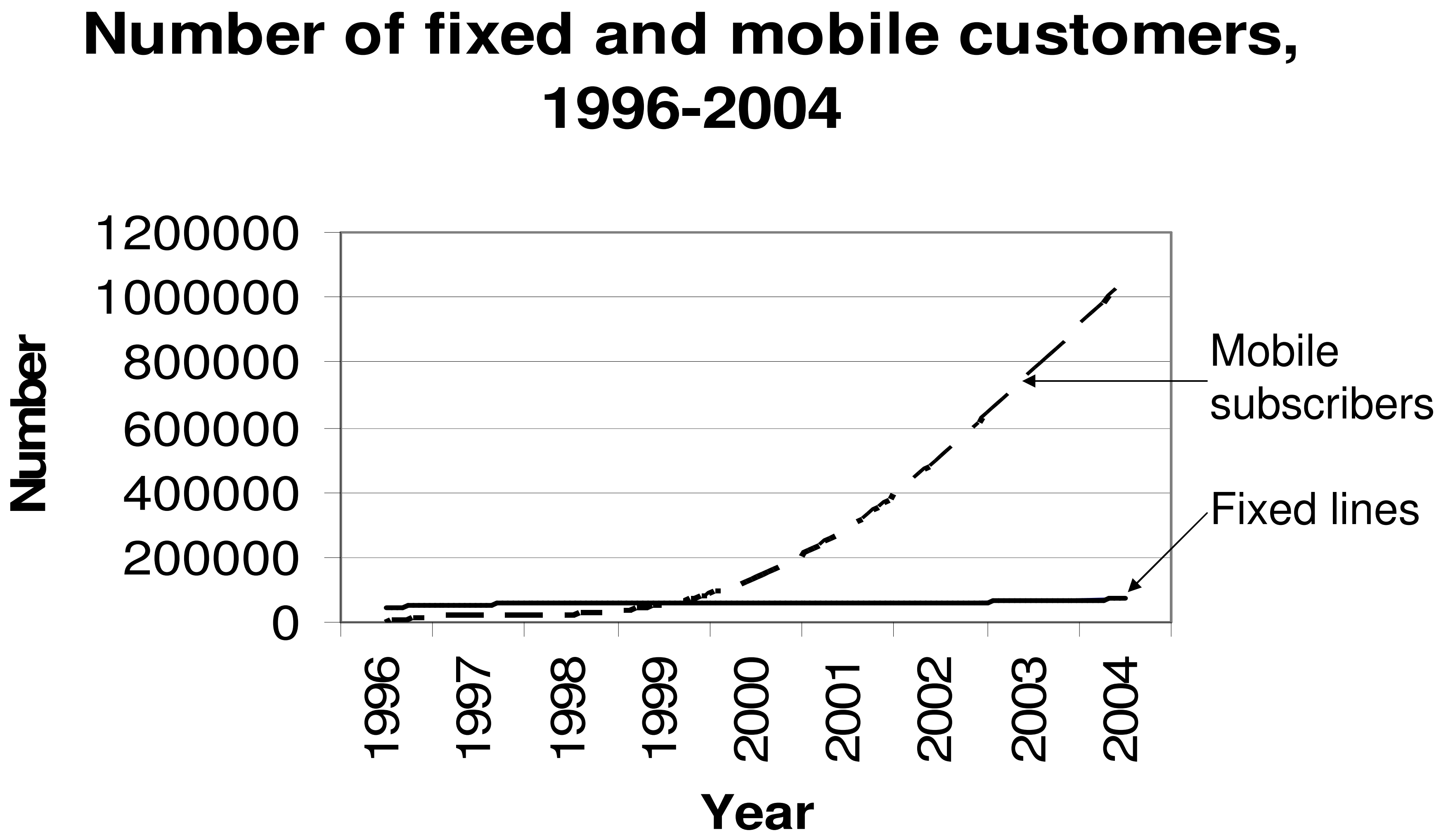
Share of public spending on:		
	all education	primary education only
Poorest fifth	13%	19%
Richest fifth	32%	18%

Source: World Development Report, World Bank, 2004

MMW4P Uganda: Mobile phone costs



MMW4P Uganda: Mobile phone nos.



Bottom of the Pyramid – and us?

- Proposes that large companies adopt radically new business models (as indeed is BDS MD)
- Roles of development agencies not obvious
- Well packaged for that audience
- "Do not work with existing people … you should not mess around with incrementalism … we know the answers"
- Shell Foundation: "Aid industry reform and the role of enterprise", September 2005

Should we focus on MSEs? Yes!

- Most of the poor are there, and much of the growth has also come from MSEs
- That is where much innovation happens
- People are happier workers in MSEs
- Large firms already have a strong voice
- Fixed compliance costs hit MSEs most
- Barriers to formalisation are major block to growth (de Soto)

Should we focus on MSEs? No!

- Quality of business environment for all firms (large & small) linked to growth
- No statistical evidence that SMEs promote higher growth, lower poverty
- Large firms give better quality employment (contracts, insurance etc.)
- Focus on MSEs creates size ‘trap’
- Small firms often not competitive globally

First two from *Do Pro-SME Policies Work?* Beck et al, World Bank, 2004

Focus on small? Maybe…

- Donor Committee for SED Survey:
  - 76% now on PSD / combination
  - 41% “add broader elements to SED” and 40% “broaden the focus to all PSD”

  See www.sedonors.org > WGs > Strategy
- SED Journal: Forum planned
- Commission for Africa (March 2005): 48 references to small enterprises

Subject areas

The Donor Committee considering which subject areas it should devote most resources to. In which of the following subject areas do you see the greatest need? (select 3)	HQ Sum n=21	HQ % n=21	CWG Sum n=10	CWG % n=10	Field Sum n=44	Field % n=44	Total Sum n=75	Total % n=75
a. Policy and regulatory reform	12	**58%**	7	**68%**	27	**61%**	46	**61%**
b. Business development services	7	**31%**	1	13%	16	**36%**	24	**32%**
c. Banking advisory services	3	12%	0	0%	5	11%	8	10%
d. Value chain programming	8	**39%**	2	20%	11	25%	21	28%
e. Export promotion	3	12%	2	23%	11	25%	16	21%
f. Capacity building of government offices	6	**31%**	4	**44%**	15	**34%**	26	**34%**
g. Public private partnership	4	21%	4	**43%**	6	14%	15	20%
h. Privatization	1	5%	0	3%	0	0%	1	2%
i. Private provision of public services	1	6%	2	18%	6	14%	9	12%
j. Linkages between big and small firms	8	**38%**	3	**30%**	13	**30%**	24	**32%**
k. Foreign direct investment	1	4%	0	0%	4	9%	5	6%
l. Technical barriers to trade	2	7%	3	28%	5	11%	9	12%
m. Supporting country-level groups of agencies	3	15%	0	0%	6	14%	9	12%
n. Other:	1	6%	1	10%	7	16%	9	12%

Business Environment

- Simon White research findings
- Cairo November 2005 www.sedonors.org/cairo
- Doing Business 2006
- de Soto: controversial?
- Practice what we preach…

Other important themes

- OPPG
- Budget support: Tz study (Challenge Funds, SWAPs, multi-donor formats)
- Decentralisation / bidding / DANIDA publishing more etc.
- The World's Banker, by Sebastian Mallerby
- IA
- New donors