Getting to Zero: Tackling Extreme Poverty through Private Sector Development Policy Guide

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Preface

The Chronic Poverty Advisory Network (CPAN) is producing a portfolio of sector and thematic policy guides to help policymakers and programme designers use evidence about chronic poverty and poverty dynamics in designing policies and programmes to:

- Contribute to addressing the causes of chronic poverty;
- Assist poor households to escape poverty;
- Prevent impoverishment.

The guides are aimed primarily at policymakers and practitioners in developing countries, working for government, civil society, the private sector and external development agencies. This includes organisations working directly with and for the poor. They are also intended for the intergovernmental, bilateral and non-governmental international agencies that support those domestic actors.

This guide focuses on the relationship between the development of the private sector and the eradication of poverty. It is part of a broader stream of work carried out by CPAN, which seeks to identify the characteristics of economic growth pathways that benefit the poorest people.

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The policy guide draws from quantitative and qualitative research conducted in two case study countries: Cambodia and Vietnam. Activities were conducted by the Mekong Development Research Institute (MDRI) in Vietnam and by Moulathan Consultancy (MC), the Nuppun Institute for Economic Research (NIER), and the Cambodian Development Resource Institute (CDRI) in Cambodia. We wish to thank in particular Tung Phung Duc, Cuong Nguyen Viet, Trang Nguyen, Nhung Nguyen, Quynh Chi Nguyen at MDRI; Kimchoeun Pak, Kagna Em, Nak Bunna and Nguon Samnang at MC; Pisey Khin at NIER and Tong Kimsun at CDRI for their valuable contribution to this piece of work.

Responsibility for the content rests entirely with the writers.
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<th>Full Form</th>
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<tr>
<td>AAIHDP</td>
<td>Addis Ababa Integrated Housing Development Program</td>
</tr>
<tr>
<td>AEO</td>
<td>African Economic Outlook</td>
</tr>
<tr>
<td>AIADB</td>
<td>African Development Bank</td>
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<tr>
<td>AIDS</td>
<td>Acquired Immune Deficiency Syndrome</td>
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<tr>
<td>AusAID</td>
<td>Australian Agency for International Development</td>
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<tr>
<td>BDS</td>
<td>Business Development Services</td>
</tr>
<tr>
<td>BIF</td>
<td>Business Innovation Facility</td>
</tr>
<tr>
<td>BoP</td>
<td>Bottom of the Pyramid</td>
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<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
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<tr>
<td>CAF</td>
<td>Corporación Andina de Fomento</td>
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<td>CGD</td>
<td>Center for Global Development</td>
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<td>CPAN</td>
<td>Chronic Poverty Advisory Network</td>
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<tr>
<td>CPR</td>
<td>Chronic Poverty Report</td>
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<tr>
<td>CPRC</td>
<td>Chronic Poverty Research Centre</td>
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<tr>
<td>CSC</td>
<td>Common Service Centre</td>
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<tr>
<td>DCED</td>
<td>Donor Committee for Enterprise Development</td>
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<tr>
<td>DFID</td>
<td>Department for International Development</td>
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<tr>
<td>DIIS</td>
<td>Danish Institute for International Studies</td>
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<tr>
<td>ECF</td>
<td>Enterprise Challenge Fund</td>
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<tr>
<td>EDP</td>
<td>Enterprise Development Programme</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GVC</td>
<td>Global Value Chain</td>
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<tr>
<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
</tr>
<tr>
<td>HUL</td>
<td>Hindustan Unilever</td>
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<tr>
<td>IAP</td>
<td>Innovations Against Poverty</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ITC</td>
<td>International Trade Centre</td>
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<tr>
<td>LDC</td>
<td>Least-Developed Country</td>
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<tr>
<td>M4P</td>
<td>Making Markets Work for the Poor</td>
</tr>
<tr>
<td>MERIT</td>
<td>Maastricht Economic and Social Research Institute on Innovation and Technology</td>
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<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro, Small and Medium Enterprises</td>
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<tr>
<td>NGO</td>
<td>Non-governmental Organisation</td>
</tr>
<tr>
<td>NiSCO</td>
<td>National Informal Sector Coalition</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OPM</td>
<td>Oxford Policy Management</td>
</tr>
<tr>
<td>OWSO</td>
<td>One Window Service Office</td>
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<tr>
<td>PPP</td>
<td>Public–Private Partnership</td>
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<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<tr>
<td>PRIDE</td>
<td>Promotion of Rural Initiative and Development Enterprises</td>
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<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SAGCOT</td>
<td>Southern Agricultural Growth Corridor of Tanzania</td>
</tr>
<tr>
<td>SDC</td>
<td>Swiss Agency for Development and Cooperation</td>
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<tr>
<td>Sida</td>
<td>Swedish Agency for International Development Cooperation</td>
</tr>
<tr>
<td>SIYB</td>
<td>Start-and-Improve Your Business</td>
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</tbody>
</table>
SMEs  Small and Medium Enterprises
TVET  Technical and Vocational Training and Education
UK    United Kingdom
UN    United Nations
UNCTAD UN Conference on Trade and Development
UNDP  UN Development Programme
UNIDO UN Industrial Development Organization
UNU   UN University
US    United States
USAID US Agency for International Development
VE    Village Entrepreneur
WIDER World Institute for Development Economics Research
WIEGO Women in Informal Employment: Globalising and Organising
WTO   World Trade Organization
YOP   Youth Opportunities Programme
Summary and Key Messages

The most direct way to help the chronically poor exit poverty through private sector development is by providing them secure, decent wage employment. This is particularly true for the most vulnerable categories, such as the poorest women and young or disabled people. However, most developing countries are not creating sufficient wage employment, or fast enough, to provide a secure job to all the poor in the near future, and the poorest people may not easily take them up. The proportion of *decent* jobs among all jobs created by growth has increased since 1990, but still over half of all new jobs created are insecure. Some of these jobs have created opportunities for the working poor, but many others have not enabled the poor to escape poverty.

This justifies the focus of this policy guide on the identification of interventions to best promote entrepreneurship among the poor in a way that puts them on trajectories out of poverty. For some, these interventions can contribute to sustained poverty escapes; for others, they mean faster upward mobility to the poverty line. It may be that benefits are intergenerational: poor microenterprises that are brought to the poverty line may not be able to grow further, but may create sufficient income to send children to school for longer and enable them to enter the formal job market.

Overall, the two key challenges for a pro-poor private sector development strategy are the creation of decent jobs and the promotion of (formal and informal) micro, small and medium enterprises (MSMEs) with the potential for growth and transformation. These two are intended as complementary actions that should be pursued with a combination of economic and social policies and legislative reforms. The dominance of the informal sector in developing economies and in the lives of poor people means this must be at the core of any pro-poor private sector development strategy.

This policy guide focuses on three key areas of a pro-poor private sector development strategy: the enabling environment; the creation of capabilities among the poor that enable them to participate on good terms; and the creation of opportunities for poor people in value chains, inclusive business initiatives and public–private partnerships (PPPs).

The analysis carried out in the guide distinguishes three levels of business: micro informal; small and medium but still informal; and small and medium but formal. When the evidence available makes it possible, the guide also distinguishes among the poor – the chronically poor, those escaping poverty who need to sustain their escapes and those non-poor becoming impoverished. Recommendations are modulated for these different categories of business and of poor (or near-poor) people wherever possible.

The guide draws on an extensive and rapidly growing literature, including a small but also growing number of good-quality impact assessments of different aspects of private sector development, as well as data analysis and qualitative fieldwork in Cambodia and Vietnam.

The top line messages are:

- Promoting entrepreneurial activities among poor and very poor people requires transfers of resources. This can be in the form of a cash and/or asset transfer for very poor people and an upgrade to microfinance for poor people who already own a business. Resource transfers need to be accompanied by other types of interventions to be effective.
- Business development services (BDS) are the core of pro-poor private sector development, and can work well for poor entrepreneurs if business management training and grants or micro-loans are provided in tandem.
- Measures to improve the enabling environment should include strong attempts to deal with petty corruption in the policy and judiciary, social services and natural resources.
• Including the poorest in value chains on good terms requires a package of measures: 1) commitment by private sector actors to labour and other social (and environmental) standards, in particular a living wage for labourers including casual workers or a living income for self-employed suppliers; 2) participants have or gain access to assets and/or skills that improve the quality of their participation; 3) adequate/greater bargaining power for the poorest achieved through organisation – recognised trades unions and associations; and 4) sustained support for the poorest from third parties (e.g. non-governmental organisations (NGOs)).

• Standards that value chains conform to need to be ‘good enough’ for the poorest and most vulnerable people in the value chain. These are standards the poorest producers can cope with, which may not be the highest.

• Skills acquisition remains difficult for poor people. Modernising traditional apprenticeships may represent a way forward.

• PPPs and bottom of the pyramid (BoP) initiatives need stronger processes of assessment of the impacts on the poor and poverty dynamics in their operations, both ex-ante and ex-post.

The enabling environment

There are particular aspects of an enabling environment for the private sector which are especially powerful contributors to the eradication of extreme poverty, because they are particularly effective in removing the constraints the poor face in market participation and in making this participation beneficial to them. These are:

• Strong policy and investment support for smallholder agriculture;
• Land tenure systems and reforms that acknowledge and promote the complex routes through which poor people access agricultural or urban land;
• Anti-corruption initiatives: these include the control of corruption, especially the small-scale everyday corruption in the police, judiciary, social services and natural resource sectors, which are of most significance for poor people;
• Reduction in harassment of informal sector operators, which requires consistent regulation as well as challenges to corruption. This is especially important for the large numbers of street vendors, who are often subject to inconsistent regulation, leaving too much discretion to local officials;
• Improving conditions in the informal sector and promoting formalisation. Informal enterprises should also be valued for their contribution to the economy and integrated into local and national economic planning.

Promoting capabilities

BDS are the core of pro-poor private sector development. No single intervention will address all capability deficits facing poor people engaged in business. The most appropriate combination of services will depend on the local context, but business development training and financial services are universally required.

Getting the skills to engage in private sector development is no easy task for poor people. Technical and vocational education and training (TVET) is often inaccessible because of cost (and often still poor quality) and lack of the necessary human capital to gain entry. Including the poorest would involve significant subsidy, and improving quality requires the close involvement of the local private sector in TVET governance and processes. Traditional apprenticeships are more accessible, although they are based on social relationships and networks, so poor people with low social capital will find them inaccessible too. Modernising apprenticeship schemes targeted to poor young people is the ‘cutting edge’ of skills development.
BDS are more efficient when they integrate financial and non-financial services, but these need to be provided separately to poor people, who will need subsidised non-financial services. Business management training for poor entrepreneurs needs to be simple, offering rules of thumb, and needs to be followed up with consultancy for a significant period after a training intervention.

Business training should be provided in combination with some form of capital transfer, for both men and women. Cash grants are more appropriate for poor micro-entrepreneurs, whereas loans may be more efficient for more established and larger firms, especially if they are already used to borrowing money. Management training for small firms should include human resource management, to encourage employers to take on and train (poor) unskilled workers and provide them with tools for improving productivity, wages and work satisfaction.

Financial services can loosen a major constraint for poor entrepreneurs and informal micro and small businesses. However, entrepreneurs may be risk averse, partly because they have few risk management tools, and partly because the risks are often substantial; as such, measures that reduce business risk are an important part of the enabling environment.

Financial services are best provided in combination with other services – business management training and other context-specific interventions. For the poorest, financial services should be preceded by other processes that build up their capability to satisfy their basic needs, save money and eventually manage credit – managing a savings account and saving consistently, literacy and numeracy are critical. Initially raising asset levels may best be done through grants rather than loans. For less poor entrepreneurs who have transformational potential, achieving a degree of formality (e.g. business registration) is the next step, which then enables greater access to a wider range of financial services. Business advice needs to work in tandem for these firms.

**Promoting women’s entrepreneurship**

Women’s economic empowerment is critical for the eradication of poverty. Simple inclusion in the workforce may not be enough if jobs are insecure, low skilled and low paid. In this situation, promoting women’s entrepreneurship can be a way out of poverty. A key aspect of this is removing the additional obstacles women face as a result of social norms, land and property inheritance, norms and the power dynamics of social relationships in the family and wider community. In addition, women already running SMEs need tailored financial products and services and specific training to improve their entrepreneurial skills and help them assume new roles beyond production. For the poorest women, the most appropriate intervention is a capital (cash or asset) transfer combined with some form of training or assistance. Measures targeted exclusively to women seem to have a greater impact, but the involvement of men is essential to achieve longer-lasting results.

**Pro-poor value chains**

Value chains can be exclusionary, but inclusion does not necessarily guarantee reduced poverty.

Upgrading in a value chain can but does not always lead to improved welfare. If the demands of upgrading are prohibitive, downgrading can be better, especially if it involves having access to growing, more stable domestic and regional markets.

Including the poorest on good terms requires a package of measures: 1) commitment by private sector actors to labour and other social (and environmental) standards, in particular a living wage for labourers including casual workers or a living income for self-employed suppliers, and safe working conditions; 2) participants having or gaining access to assets and/or skills that improve the quality of their participation; 3) adequate/greater bargaining power for the poorest achieved through organisation – recognised trade unions, associations; and 4) sustained support for the poorest from third parties (e.g. NGOs). Certified standards, such as Fairtrade certification, must be inclusive of and
beneficial for all people involved the product’s value chain, including the most vulnerable categories such as young women and migrants.

**Bottom of the pyramid initiatives**

BoP initiatives may help people who have already escaped poverty avoid re-impoverishment and sustain those escapes. It may be more difficult to reach the chronically poor or the poorest people through BoP approaches.

Solid upfront analysis and design of BoP initiatives to take into account the capabilities, potentials and requirements of the poor and poorest is required. For example, suppliers of goods and services to the poor (and especially poor women) need to be sure their products are not ambiguous in the way they impact wellbeing and do not create consumption habits that may have negative effects on people’s wellbeing.

Benefiting women requires both flexibility of procedures (e.g. timings) and a degree of security of income if they are producers to avoid making them more vulnerable than they were.

Lead companies need to take on some risk so the risks to poor, often women, traders selling goods or services that are in demand are not too great.

To be a strategy of prog-poor private sector development, inclusive business need to stimulate domestic markets, for example involving domestic firms through the creation of direct and indirect linkages. Accompanying training and BDSs may also be required.

**Public–private partnerships and challenge funds**

There are PPPs that have good potential for supporting pro-poor private sector development. However, few PPPs have a focus on the poor built in from the beginning in a strong way, so the effects are likely to be accidental or indirect, through growth (e.g. stimulation of new firms and greater competition) or because the sector supported includes many poor people (e.g. agriculture).

There may be a trade-off between long-term profitability of ventures supported and direct benefits for the poor.

Challenge funds may be designed with pro-poor outcomes as a central objective: however, evidence of impact is limited as yet. Assessments should show whether the fund achieves additional effects over and above what would have been achieved without the fund – in terms of inputs, outputs, development and systemic change in behaviour. It is the latter that is particularly important. They should also look for displacement effects – where new enterprises displace existing enterprises that may involve or benefit poor people.

Challenge funds can also help raise and tackle issues in the business enabling environment. They can constitute a shortcut to achieving change and can be employed as an instrument of economic policy to influence the behaviour of firms, and so to trigger pro-poor private sector development.

**What is this guide for and how do you use it?**

This policy guide is concerned with the policies and programmes that can help ensure the development of the private sector is a process that includes poor people and contributes directly and indirectly to poverty eradication. It is meant primarily for policymakers in developing countries and in donor agencies, but is also of use for private sector operators and associations and NGOs.

Each of the following sections seeks to answer one of the following questions:

1. What policies are needed to eradicate extreme and chronic poverty?
2. What is the relationship between poverty and the private sector?
3. What is a pro-poor private sector development strategy?
4. What is an enabling environment for pro-poor private sector development?
5. What is the evidence of the poverty impact of different interventions for private sector development?
6. How do you make interventions for private sector development pro-poor?

The term ‘private sector’ is used here in a broad sense, to include both the private corporate sector and the private informal sector. To account for its heterogeneity, the guide distinguishes between three categories of firms:

1. Informal microenterprises, run by poor or near-poor people, whose establishment is often the result of a lack of alternative economic opportunities. These are found in both rural and urban areas. They are often referred to as subsistence entrepreneurs, meaning they are a source of livelihood for the entrepreneur and their family but do not grow or create new jobs.
2. Informal SMEs, some of which have high growth and transformational potential. These tend to be concentrated in urban and peri-urban areas, but can be found in rural areas too.
3. Formal SMEs, which can be well established and often export-oriented companies in the formal sector but which may face some of the same challenges characterising firms in the informal sector (interventions for this last category will be discussed only marginally, as it is less relevant for the poor). These are predominantly urban.

Different interventions aimed at private sector development will generate different responses from each of the above categories. This guide is primarily interested in the first two categories, because the informal private sector is the main source of employment in developing countries, especially for the poor. When relevant, policy recommendations are drawn distinguishing between the different categories.

Many of the policy lessons drawn in this guide apply to rural areas – this is a direct consequence of the fact that the majority of the chronic and extreme poor are still located in rural areas (CPRC, 2004), and so are their businesses. However, there are also lessons drawn from, and applicable to, urban experiences. This is the case for business training and for harassment of street vendors, for instance.

Three main sources of evidence are employed: impact evaluation studies of various types of intervention, summarised in Annexes A and B and referred to throughout the text; life histories and vignettes on the lives of poor workers and entrepreneurs collected during fieldwork in Cambodia and Vietnam in August 2014; and panel data analysis for Cambodia and Vietnam. These countries were selected for more detailed investigation as they are thought to offer strong positive lessons on the role of the private sector in addressing extreme poverty.

The guide does not aim to be exhaustive: some areas of interventions for private sector development were not covered because of lack of rigorous evidence or of clear direct impact on poverty. There are, however, two areas that are relevant to achieve pro-poor private sector development that are not discussed at length in the guide: insurance and saving services for the poor; and employment. The Chronic Poverty Advisory Network (CPAN) has produced two separate policy guides for each of these topics, the key recommendations of which are summarised in Boxes 9 and 12.

Lastly, the evidence available does not enable us to identify a single set of interventions that will always work, or one that will always guarantee a larger impact on poverty. Rather, it is the combination of different interventions in a broader context-specific strategy to make the development of the private sector pro-poor that will be more effective. Ensuring economic growth is accompanied by poverty reduction and improvement of poverty dynamics therefore requires countries designing national strategies for pro-poor private sector development, tailored to the characteristics of their (poor and non-poor) private actors. In most cases, this means focusing on the informal economy.
1. What Policies Are Needed to Eradicate Extreme and Chronic Poverty?

Getting to zero extreme poverty everywhere by 2030 is going to be difficult, and will demand a new approach at policymaking for poverty reduction. This approach must recognise poverty is dynamic: many people rise above the poverty line only to tumble back beneath it because they lack the skills, education or assets to keep their heads permanently above it. Many others return to extreme poverty, or become poor for the first time, when they are hit by a combination or sequence of shocks, such as a serious drought, a costly illness and insecurity or conflict in their community. Others stay poor over years or a lifetime (these are the chronically poor), and pass their poverty down to their children.

Box 1: Definitions of poverty used in the guide

<table>
<thead>
<tr>
<th><strong>Extreme poverty</strong></th>
<th>$1.25 per person per day (or below national poverty lines in some cases). This basic statistical measure is based on consumption or expenditure as recorded by household surveys.</th>
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<tbody>
<tr>
<td><strong>Severe poverty</strong></td>
<td>$0.70 per person per day, based on the average consumption of the poor in Sub-Saharan Africa (or in some cases consumption below national food or severe poverty lines).</td>
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<tr>
<td><strong>Chronic poverty</strong></td>
<td>extreme poverty that persists over years or a lifetime, and that is often transmitted intergenerationally. The extreme and severe poor are also usually chronically poor.</td>
</tr>
<tr>
<td><strong>Impoverishment</strong></td>
<td>descent into extreme poverty.</td>
</tr>
<tr>
<td><strong>Sustained escapes from extreme poverty</strong></td>
<td>staying out of poverty and progressing towards a higher threshold (such as $2 per person per day).</td>
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</table>

Until now, the focus has been on helping people escape from poverty, but this needs to be complemented by initiatives targeted at supporting escapes from poverty of those who have reached the poverty line and policies to prevent their impoverishment (Shepherd et al., 2014).

Different policies are required to address each poverty dynamic (i.e. tackling chronic poverty, sustaining poverty escapes and preventing impoverishment), and some of these policies involve the private sector directly or indirectly.

For example, tackling chronic poverty demands agricultural value chains that generate reasonable returns for smallholder farm households, and an improvement in working conditions in the informal sector, including greater safety and higher wages. Policies that remove discriminatory social norms and practices (against women, people with disabilities, older people and disadvantaged ethnic, religious or caste groups) are also of fundamental importance, and must touch on areas of relevance for economic activities – for example ensuring the elimination of land inheritance laws that discriminate against women.

To stop impoverishment, an effort must be made to design insurance and savings product that are taken up by poor and near-poor people, so as to protect them against risk of extreme weather or the loss of their meagre assets (protection against health shocks is best achieved through universal health coverage, whenever this is possible).

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1 This list is not exhaustive; rather, it focuses on policies of greater relevance for the private sector. The Chronic Poverty Report 2014-5: The Road to Zero Extreme Poverty presents the policies required for each poverty dynamic in greater detail (Shepherd et al., 2014).
**Sustained poverty escapes** happen when the poor build up productive assets, chiefly land: required policies include land tenure reforms to protect the poorest from the loss of their land and to help them gain access to more land over time, and markets that are accessible by smallholder farmers. The build-up of assets at the local level needs to be matched by progressive regional and local economic development policies to extend the benefits of economically dynamic regions or cities outwards to poorer areas through improved infrastructure and institutions.

In addition to these, three areas of interventions are essential everywhere and for all poverty dynamics. These are **social assistance**, **education** and **pro-poorest economic growth**. Social assistance brings the poorest people closer to a decent standard of living, provides a safety net for them in tough times and encourages them to make the investments and take the risks that could propel and keep them out of poverty. Education, especially education beyond a few years of primary school, enables escapes from poverty and sustains the climb away from it; it also has the advantage of being a ‘portable asset’ that is resilient to crises. Pro-poorest economic growth ensures the benefits of increasing national prosperity reach the very poorest people.

The private sector is relevant for all these three areas. Education and social assistance are primarily areas of competence of the state, and so they should be. However, delivering quality education and social assistance to poor people will also have considerable positive effects on the development of a country’s private sector. This is a key message of this policy guide. In certain circumstances, the private sector can also play a role in the delivery of social assistance and education, although these circumstances are less likely to arise when it comes to poor people.

Pro-poorest economic growth is achieved when growth is driven by the creation of jobs in the private sector, including unskilled jobs for the poor. This is not an automatic outcome of private sector development, which can also exclude poor people altogether, or include them on adverse terms, for example through exploitative contractual arrangements. Further, different people face different challenges and opportunities in relation to participating in private sector development. These vary according to the characteristics of the ‘enabling environment’ in which they operate, their personal endowments of skills and assets and the poverty trajectory on which they are.

Private sector development will not automatically contribute to poverty reduction unless the specific characteristics and requirements of poor people are taken into account: their capabilities are increased, opportunities achievable to them are created and the environment in which they operate is improved. Section 4 outlines the key features of a pro-poor private sector development strategy.
2. What Is the Relationship between Poverty and the Private Sector?

2.1 The contribution of private sector to poverty reduction through job creation

The private sector provides around 90% of jobs globally (World Bank, 2012a). In particular, jobs in small and medium enterprises (SMEs) account for more than half of all formal employment, especially in developing countries, where they represent 66% of permanent full-time employment. In Latin America, 75% of entrepreneurs have microenterprises (with fewer than five employees) and employ around 40% of the salaried workers of the private sector; overall, 28% of the working population in the region is self-employed (CAF, 2013). Self-employment is also predominant in Africa: about two-thirds of informal firms in Botswana, Kenya, Malawi and Zimbabwe consist only of the owner (Haan, 2006). The private sector, and SMEs in particular, have also been responsible for the creation of new jobs in developing countries in the past two decades: between 1995 and 2005 the private sector accounted for 90% of jobs created in Brazil and 95% in the Philippines and Turkey (World Bank, 2013a).

Employment creation is the most important and direct way in which private sector development contributes to poverty eradication and improved poverty dynamics. Indeed, creation of new and more productive jobs, especially in Asia, has been the main driver of poverty reduction worldwide (World Bank, 2013a).

Table 1: Patterns of employment growth by country category, total employment, average annual growth rates (%)

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<tr>
<td>Advanced economies</td>
<td>0.9</td>
<td>0.7</td>
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<tr>
<td>Developing countries</td>
<td>1.8</td>
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<td>Least-developed countries</td>
<td>2.8</td>
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<td>Lower-middle-income countries</td>
<td>2.1</td>
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<td>Emerging economies</td>
<td>1.4</td>
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At the micro level, the evidence is unmistakable that chronic poverty is associated with lack of secure and adequate income-earning activities and escapes from chronic poverty are linked to work-related events, such as a family member finding a job and/or earning more.

Panel studies from Bangladesh, Ethiopia, Nepal, Pakistan, South Africa and Vietnam showed household members obtaining employment or establishing successful non-farm businesses is frequently associated with escapes from poverty. In South Africa and Vietnam in particular, these events were associated with increased returns to labour (Baulch and Hoang Dat, 2011). Life histories from 15 countries found the main reason people gave for moving out of poverty was associated their own initiative in finding jobs and starting new businesses (Narayan et al., 2009). The life history of Ngo Thi Kim (Box 2) confirms the importance of a job in enabling escapes from poverty.

Box 2: Life history of Ngo Thi Kim, Hanoi, Vietnam – having a job as a route out of poverty

Kim’s life has been characterised by some negative events, such as divorcing her husband and being a single mother. However, thanks to her parents’ support, she managed to stay out of extreme poverty. Kim’s name was crossed off the commune’s list of poor households in 2013, after four years of working as a cleaner in an industrial park. Kim attributes this to her job, as it provides her a regular salary. Before, she was working as a day labourer on construction sites or as a weed-puller in fields for a very low wage of VND30,000-50,000 per day (around $1.50-2.50). Now Kim is earning over VND...
2 million per month with bonuses at the end of the year. However, she has no safety net to shelter her from welfare damage in the case of unemployment or health shocks.

Quantitative analysis in Vietnam and Cambodia (Box 4) confirms running a non-farm business can be a strong driver of poverty escapes, but suggests this is not an opportunity all families can take. Casual wage employment in agriculture is instead associated with chronic poverty, confirming the importance of improving the conditions of wage labourers in rural areas.

Having a stable and safe job also greatly reduces the chances of impoverishment. This enables households to save, plan expenses and investments in human and productive capital and cope with shocks; safe working conditions reduce the risk of injuries or health conditions that can lead people into poverty. Having a stable job also greatly increases the probability of being enrolled in a social insurance scheme.

However, having a job is no guarantee of escape from poverty: in developing countries there are 375 million extreme working poor (earning less than $1.25 per day) and 457 million workers living in moderate poverty (earning between $1.25 and $2 per day) (Figure 1). The number of working poor decreased everywhere between 2007 and 2013, but they still constitute the majority of the working population in least-developed countries (LDCs), with 65.2% of workers earning less than $2 per day.

The majority of the extreme working poor engage in vulnerable employment. According to a review of household surveys from 39 developing countries, this was the case for 83.7% of the extreme working poor, whereas only 12.7% of the extreme working poor are in wage employment (Kapsos and Bourmpoula, 2013).

Workers in vulnerable employment are more likely than workers in formal wage employment to be trapped in a vicious circle of low-productivity employment, poor remuneration and limited ability to invest in their families’ health and education, which, in turn, reduces the likelihood that current and subsequent generations will be able to move up the productivity and income ladders (ILO, 2014).

Escapes from poverty that are sustained over time are associated with a decrease in vulnerable employment and a corresponding increase in wage and salaried employment. Being in wage employment is more likely to result in improved living standards for workers and their families: more than six out of 10 workers in the developing middle class and above in these countries are in wage employment (Kapsos and Bourmpoula, 2013, in ILO, 2014). The share of vulnerable employment in developing countries decreased between 1991 and 2013 from 64.9% to 55.4%, with a corresponding increase in wage and salaried employment. However, these trends have been stronger in emerging economies and middle-income economies: in LDCs 80% of the workforce is still in vulnerable employment (Figure 2).

**Box 3: Vulnerable employment and working poor – definitions**

**Vulnerable employment** refers to the working population at risk of weak and unreliable incomes. Two categories of employment fall into the vulnerable definition: contributing (unpaid) family workers and the self-employed (those working on their own account). These two categories are less likely than wage workers (employees) to have formal working arrangements, be covered by social protection systems or have regular earnings.

**Share of working poor** is the proportion of workers living below the poverty line. The existence of working poor reflects that having a job is not always a guarantee of escape from poverty, and the unemployment rate is not an adequate measure of the state of the labour market. Low incomes and limited availability of social protection systems compel most of the population in developing countries to work, albeit in low-productivity, unsecure, unsafe and sometimes exploitative occupations.

Figure 1: Working poor in the world by category of country, 1991-2013


Figure 2: Shares of status in total employment by category of country, 1991 and 2013

The presence of women in the workforce is increasing everywhere, but they are less likely to be employed in quality jobs. Almost two-thirds of employed women in developing countries are in vulnerable jobs, as own-account or unpaid family workers (UN, 2009), as casual agricultural labourers at the bottom of a global value chain, as workers in urban factories and workshops or as domestic servants. In Sub-Saharan Africa, 84% of employed women are in the informal sector (Benjamin and Mbaye, 2014). When employed, they are more likely to be in part-time, seasonal and low-paying jobs and receive lower wages for the same work, even when they have the same experience and qualifications than men.

**Box 4: The private sector as a driver of poverty dynamics – insights from Cambodia and Vietnam**

Cambodia and Vietnam have both experienced economic growth accompanied by remarkable poverty reduction in recent decades. In both countries, factors associated with the development of the private sector have played an important role. To explore further the association between poverty dynamics (namely, staying chronically poor, escaping poverty or falling into poverty) and engagement in entrepreneurial activities, sequential logit regressions were run using household panel data.²

For Cambodia, three waves of the Cambodia Development Resource Institute’s panel household survey were used: 2004/05, 2008 and 2011. The figure below shows the poverty transitions across the sample, composed of 793 households from nine villages. In the period examined, more households escaped poverty than fell into it. The poverty headcount ratio was 44% in 2004/05; it fell to 27% in 2008 and rose again up to 41%, largely as a consequence of the global economic crisis.

The results of the quantitative analysis indicate income from small business increases the probability of being non-poor and of escaping poverty; however, what matters is the size of the business income, not having a business per se (which is less strongly associated with poverty escapes). Variables associated with having a small business were more often significant and more consistently associated with poverty escapes than variables describing land ownership and engagement in farming. This suggests having an income from a small business is a better guarantee of an escape from poverty than land ownership. Further, when the occupation of the household head was in agricultural wage

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² The quantitative analysis for this policy guide was conducted by the Cambodia Development Resource Institute for Cambodia and by the Mekong Development Research Institute for Vietnam.
labour, the probability of being non-poor and of escaping poverty decreased, confirming that agricultural wage labour tends to be associated with chronic poverty.

In Vietnam, the analysis employed two waves (2010 and 2012) of the Vietnam Household Living Standard Survey, using a panel of 4,157 households. In the period examined, more people escaped poverty than fell into it, although a larger share than these two remained chronically poor (see Figure). The poverty headcount ratio for the panel was 21% in 2010 and 17% in 2012.

In terms of household occupation, having at least a member of the family working for a wage increased the probability of being non-poor and of escaping poverty. For households engaged in non-farm employment, working in trade had the strongest and most significant impact on this probability. Being occupied in mining, manufacturing, construction and hotel, transport and services also increased the probability of being non-poor, but it was not significant for poverty escapes. Having cropland reduced the probability of being non-poor in both 2010 and 2012, because poverty is more concentrated in rural areas among small farmers. However, conditional on having land, having a larger plot of land did increase the probability of escaping poverty.
2.2 Characteristics of the private sector in developing countries: the informal sector and the missing middle

The most important characteristic of the private sector in developing countries is informality. The informal sector in developing countries accounts for about half or more of the total labour force and is composed primarily of micro, small and medium enterprises (MSMEs). For example, in Africa the informal economy accounts for 50-80% of gross domestic product (GDP), 60-80% of employment and as much as 90% of new jobs (Benjamin and Mbaye, 2014).

Another characteristic of the private sector in developing countries is the so-called ‘missing middle’. This refers to the presence of a large number of informal microenterprises, some large domestic (sometimes state-owned) or international enterprises, but a very small number of formal (but to an extent also informal) small and medium enterprises.

The low barriers to entry in the informal sector explain the very large numbers of microenterprises; these enterprises, however, fail to grow and expand because they face higher risk and bear more responsibility than firms in the formal sector (lack of legislation means lack of limited liability); they are also less productive because they have less access to public goods and forms of government support. There is also a mismatch between demand and supply – of both goods and labour, largely because of lack of information and limited mobility of economic actors (Box 5).

Consequences of these constraints are the reluctance of firms to create linkages (which explains the relative lack of indigenous value chains and firm specialisation) and the lack of diversification in economic activities (the range of activities covered by microbusinesses is generally quite limited). In turn, this implies many competitors and a small market/low demand for each individual firm, which further diminishes opportunities for expansion. Finally, a common but often underestimated constraint is the absence of the specific technical and managerial skills required to operate a firm and expand. The stunted growth of SMEs is likely to reduce productivity and slow down growth and poverty reduction – because there is evidence that larger companies tend to be more productive and more innovative and pay higher wages (World Bank, 2013a).

Box 5: Mismatch between demand and supply and between expectations of buyers and capacity of local producers in the restaurant sector in Cambodia

Angkor Thom district in Siem Reap province in Cambodia hosts the main touristic attractions of the country: the Angkor Wat temple complex. The city of Siem Reap and the villages surrounding the temple have benefited from a rise in tourism in the past decade and small business activities are thriving all around the area.

The flourishing of restaurants for locals and tourists has raised the demand for vegetables, but this has had little impact on local smallholder farming. In fact, restaurants usually do not buy vegetables from nearby producers, because these offer an unstable supply, with less variety and at higher prices than in the wholesale market (where the vegetables sold are usually imported from Thailand and Vietnam). The mismatch between demand and supply hampers the creation of linkages between tourism and agriculture and opportunities for pro-poor growth are lost. Interventions are needed to promote the productivity of local small farmers and to incentivise restaurants to source locally.

Informality persists because it also offers advantages, such as flexibility, lack of regulation, low transaction costs and low barriers to entry. While generally less productive than formal firms, businesses in the informal economy tend to demonstrate resilience, adaptability and flexibility, and in some cases also potential for growth and a rise in productivity. In Latin America, three-quarters of micro-entrepreneurs are subsistence entrepreneurs, but a quarter have the potential for growth and to become transformational entrepreneurs. Developing countries in other regions of the world are likely to have similar, if not more encouraging, shares of micro and small enterprises, with growth and
transformative potential. This seems to be the case of Vietnam, where life histories reveal that microenterprises can offer a route out of poverty, as in the case of Nguyen Thi Hue (Box 7).

**Box 6: Different aspects of informality – employment in the informal sector and informal employment**

**Employment in the informal sector** is an enterprise-based concept and refers to persons working in units that have ‘informal’ characteristics in relation to, for example, legal status, registration, size, registration of employees, bookkeeping practices, etc.

The informal sector (or informal economy) is a heterogeneous category that encompasses different work activities and actors, including micro-entrepreneurs, own-account operators and family-run enterprises, informal wage workers and industrial outworkers. The distinction between formal and informal actors and activities is not always evident: in fact, many informal enterprises and workers are intrinsically linked to formal firms (see informal employment below) and different segments of the informal economy are overregulated, deregulated or under-regulated.

**Informal employment** is a job-based concept and refers to those whose main jobs lack basic social or legal protections or employment benefits, and may be found in the formal sector, informal sector or households. Informal workers who operate in the formal sector include, for example, domestic workers with no social protection and sub-contracted industrial workers producing from their homes or small workshops.

Almost all those employed in the informal sector are in informal employment. However, not all those in informal employment belong to the informal sector: there may be people working outside the informal sector (i.e. either in the formal sector or in households producing for own final use) that have informal employment.

Source: Chen (2005); ILO (2014).

**The characteristics of informality vary from country to country, but with no direct correlation with income per capita:** empirical evidence shows a large informal sector can coexist with the expansion of the formal economy and good growth performance.

**Box 7: Life history of Nguyen Thi Hue, Hoa Binh, Vietnam – opening a business in the informal sector as a route out of poverty**

Hue’s life out of poverty was a relatively stable upward trend, thanks to her penetration into the informal private sector. Her fruit stall lifted her and her family out of poverty, stabilised the household income and provided the insurance and security she needs. Hue started to experience hardship after the birth of her first child in 2011. They had no agricultural land; her husband worked as a day labourer or cleaner and Hue sold vegetables in the local market. From 2001 to 2006 she also worked occasionally for local restaurants, preparing the food and serving customers.

In 2004, observing the potential profits that fruit trade could bring and following the example of several others in her area, Hue started to buy fruit from Luong Son district and Long Bien Market in Hanoi and to resell them at the local market. Hue used to cycle back and forth between Hanoi and Xuan Mai for the trade. With a view to speeding up the transportation time, in 2004, after being classified as ‘poor’, Hue took out a VND 5 million ($ 232) loan from the local Women’s Union to buy a motorbike for her husband so he could help transport the fruit from Long Bien to Xuan Mai for her. Her fruit sales started to pick up, and Hue managed to save enough to pay back the loan after three months.
Hue accumulated more knowledge of the market for fruit in the area. In 2006, the opening of a new major provincial road prompted her to relocate to its pavement. She had her second child that year; her mother helped her take care of the children so she could focus her efforts on her micro-business.

In 2011, Hue escaped poverty. She started to take large orders from schools and restaurants. She did not sign any form of formal contract, but relied on trust and reputation to sustain the deals.

In 2013, with her savings, Hue bought a truck and paid for her husband’s driving training and licence. He now uses the truck to transport fruit from distant provinces. Whenever available, he takes up hired transportation tasks, such as moving furniture, to earn extra income.

Hue is worried the rules may tighten up against informal businesses like hers. As of now, she frequently has to ‘run’ from local security men and temporarily move her stall away from the road as she is legally not allowed to set up any business premises on the pavement. Hue has had to give small presents, such as fruit from her stall, to the local police so they leave her stall alone during each police check. Understanding she has to formalise her business in a way, she has already bought a ‘box’ in the local market where she can legally sell things, but she is currently offering it for rent. Moving her work into the market will also mean changing her products for sale (probably to clothing) since she will not gain as much profit from the fruit stall because of the less favourable location.

Informal enterprises are mostly micro in size, with few or no hired workers. Of the informal workforce in developing countries, less than 5% are employers who hire others, except in East Asia, where around 10% are employers (Vanek et al., 2014). Many of the self-employed in the informal economy, especially women, are unpaid contributing workers in family firms or farms (ibid.).

The informal sector hosts a disproportionate share of working poor and of vulnerable employment. Most people engaged in informal activities are exposed to inadequate and unsafe working conditions with long working hours; have low skill levels and face inadequate training opportunities; have less certain, less regular and lower incomes than those in the formal economy; lack collective bargaining and representation rights; and are physically and financially more vulnerable because the informal sector is beyond the reach of social security schemes or labour protection legislation (Benjamin and Mbaye, 2014).

In some cases, micro (one person or household) enterprises are the livelihood source of last resort in the absence of better employment opportunities, especially for poor people who lack skills and education. For example, in Sub-Saharan Africa the largest category of non-farm employment is in household enterprises, and this sector is growing because of limited alternatives for those who lack education or access to markets as a result of remote locations (Fox and Sohnesen, 2013).

Overall, the informal sector hosts different categories of workers and entrepreneurs on different poverty trajectories. Some are chronically poor engaged in casual wage employment in agriculture and construction; others are self-employed in one-person or family enterprises. Some run small and micro enterprises and are better placed to enter a trajectory of poverty escape; others will be ready to become transformative enterprises that hire other (poor and non-poor) people.
3. What Is a Pro-poor Private Sector Development Strategy?

This policy guide provides guidance on what interventions governments can implement to promote the development of the private sector in a way that benefits the poor, including the poorest people. It also offers insights on the role donors and private sector actors can play in the process. By private sector development, we refer to both the structural transformation of private enterprises and the policies and interventions that underpin it.

- A pro-poor private sector development strategy is one that takes into account the heterogeneity of the poor, acknowledges the importance of the informal sector and seeks to achieve systemic change in markets and in the broader enabling environment through the cooperation of public and private actors.
- Acknowledging the importance of the informal sector means informal enterprises should be integrated into economic planning at both the local and the national level.
- The two key challenges for pro-poor private sector development are the creation of decent jobs and the promotion of (formal and informal) MSMEs with the potential for growth and transformation. These two are intended as complementary actions that should be pursued with a combination of economic and social policies and legislative reforms. For reasons of space and focus, this policy guide focuses in particular on interventions aimed at informal micro and small enterprises. Interventions to create quality jobs/decent work for the poor are discussed in the Employment Guide (see Box 12 in Chapter 4).

Achieving the objectives above requires a focus on poor households, microbusinesses and SMEs and interventions that enable them to benefit from participation in private sector development. In particular, a pro-poor private sector strategy is a multi-pronged strategy that does the following:

- It promotes an enabling environment (which includes social relations, economic and social policies, laws and legislation). This is key to remove the constraints and structural weaknesses private actors – in particular poor people operating in the private sector – face.
- It creates capabilities for poor actors to participate in markets in a beneficial way and benefit from engagement with other private sector actors. This involves various types of investment in human capital (e.g. business training) as well as the transfer of financial and non-financial assets (e.g. microfinance and cash grants).
- It creates opportunities for the poor to participate in markets that are less risky and more inclusive. This has strong analogies and complementarities with the Making Markets Work for the Poor (M4P) approach (see Box 8).

The following sections discuss interventions to create capabilities and opportunities for the poor.

Box 8: Pro-poor private sector development and Making Markets Work for the Poor

Private sector development requires, unavoidably, development of the market system. It follows that any pro-poor private sector development strategy should seek to develop markets that are more inclusive of, and beneficial to, poor people. Most donors have developed frameworks outlining principles and actions required for more inclusive market systems. One such framework is the UK Department for International Development’s (DFID’s) M4P approach, also recently adopted by the Swedish Agency for International Development Cooperation (Sida) and the Swiss Agency for Development and Cooperation (SDC).

The M4P approach aims to contribute to poverty reduction by analysing and influencing market systems that are relevant for the poor as producers, consumers and wage workers. It seeks to 1) identify what is constraining markets from growing and becoming more inclusive; 2) identify what
needs to be in place to enable markets to function efficiently and competitively; and 3) understand the extent to which there is level playing field and the poor are able to access and benefit from markets.

Its rationale is that, in developing countries, markets often do not function efficiently or fairly, limiting growth and opportunities for poor people to participate in and benefit from. It prescribes interventions that seek to strengthen the functioning of the market, providing the incentive for the private sector to increase access to markets for the poor, rather than the public sector attempting to provide the service itself or to impose controls on prices and quantities produced. The role of M4P programmes should be to play a facilitative, adaptive role, aiming to achieve systemic, large-scale and sustainable changes that positively affect the poor.

The pro-poor private sector development strategy proposed in this guide is consistent with the M4P approach, and in fact uses as examples many interventions implemented as part of the approach itself. A few differences in the analysis and in the policy prescriptions are worth pointing out.

Consistent with CPAN’s concern with chronic poverty, the analysis is people-centred, not market-centred, and it rests on a broad understanding of the causes of poverty, which includes social relations and institutions that go beyond the market – while also influencing market behaviour and economic activities. More emphasis is also put on the exploitative role markets can play and the risk of adverse inclusion in them faced by poor people.

These differences are reflected in policy recommendations that put greater emphasis on the enabling environment and on measures to safeguard poor people from adverse inclusion in markets. There is also a more agnostic approach to whether market solutions are necessarily better than improvements in the public provision of basic goods and services.


Other key features of a pro-poor PSD strategy are:

- **There is cooperation between the private and public sectors.** It is now widely recognised that government intervention is needed to create the conditions for the private sector to prosper, and in particular to create those institutions that enable the development of a country’s competitive advantages (UNIDO, 2008). Governments can play an important role in creating incentives to invest in new skills and productive processes, facilitating collective action and creating inter-firm linkages, developing and ensuring quality standards or protecting industries from strong trade shocks that might wipe out entire sub-sectors.

- **Activities in support of the private sector need to have a clear business orientation, be provided in collaboration with private sector actors and pay attention to creating the right market-based incentives,** to achieve both outreach and sustainability (or profitability) of activities. This is to minimise the risk of interventions being captured by vested interests and lead to corruption and rent-seeking.

- **Interventions are designed and implemented taking into account the heterogeneity of the private sector in developing countries.** Because of this heterogeneity, different interventions will generate different responses from SMEs with growth and transformative potential and poor subsistence entrepreneurs. For example, the latter will have a lower willingness to pay for business development services – because they are too poor and too uneducated and risk-averse and may have short-term preferences that hinder them from investing optimally in enterprise services (Altenburg and Stamm, 2004; UNIDO, 2008). **This makes it difficult to turn the provision of business development services for the poor into a profitable activity.**
3.1 Measures to create capabilities

3.1.1 Technical and vocational education and training

TVET aims at facilitating transition into work for young people, helping remove the constraints they face in entering the labour market: lack of information about what jobs are available; lack of access to social networks, which play an important role in the job search process; and lack of ways to signal their capabilities to employers. TVET contributes to private sector development enabling young people to take advantage of employment opportunities, becoming wage employees or creating new successful small businesses.

The new generation of thinking on TVET is about learning more systematically from the experiences of high-income countries and applying these to replace older supply-driven training with flexible and responsive programmes, in partnership with businesses and employers (Hossain, 2012).

3.1.2 Business development services

BDS aim to improve the performance of an enterprise, its access to markets and its ability to compete, and can play an important role in promoting business upgrading (defined as enhancing firm productivity, sale volumes or returns to capital). A variety of interventions are included in this category: management training, skills development for workers, marketing assistance (for inputs as well as outputs), technology access, technical assistance, productivity and product design, accounting and legal services and access to various sorts of information (about standards, regulations, ideas in the enterprise field). Financial services, including microfinance, are also part of this category.

3.1.3 Business and management training

Business training programmes aim to improve the management practices and managerial capabilities of both micro-entrepreneurs and managers of SMEs. The scope of the interventions and the type of training provided vary widely according to the intended beneficiary, the type of enterprise targeted, the context of implementation and the implementing agency. They aim to remove the constraints facing MSMEs in terms of lack of skills and access to information. Training is implemented in conjunction with other types of services, especially financial services, which aim to remove the capital constraints facing small and micro-entrepreneurs.

The importance of business training should not be underestimated. A major constraint to development of the private sector in developing countries has been the low level of investment in technological upgrading, including through training and learning-by-doing in the workplace (Khan, 2012). Because SMEs are often unable to hire people with the right expertise, they lack key business skills such as strategic planning, marketing or financial reporting. Increasing managerial capital and the skills of workers are necessary conditions for SME upgrading and to help them survive international competition and inclusion into global value chains (GVCs).

3.1.4 Microfinance and financial assistance to SMEs

Access to finance is one of the major constraints facing MSMEs in developing countries and hampers growth and productivity. This includes both working and investment capital; for the smaller, more informal, firms, working capital is especially problematic. To address this and remove the constraints, however, it is necessary to take into account that MSMEs constitute a highly heterogeneous sector, with different needs and potentialities. Both size and level of formality (or informality) play a fundamental role in determining the type of financial services these firms can access, and also the best solution for them.

- **Informal microenterprises**, run by poor or near-poor people, struggle to become **bankable** because they cannot produce formal financial accounts or formal guarantees.
Accordingly, these firms rely more heavily than other enterprises on informal finance providers. Solutions include microfinance (savings and credit) and/or cash grants to bring them to a position where they can make use of microfinance (see below).

- **Informal SMEs can be too big for microfinance institutions, but not formal or established enough for banks.** It is especially this segment that seems to be affected by shallow financial markets. Microfinance — especially if provided to individuals and not to groups — can be a solution for some such enterprises, but it may be too small and too rigid (because it is constrained by the group capacity to repay) for the bigger and more dynamic firms. For example, in Mexico, the predominance of the group-lending microcredit model has prevented individual lending to microenterprises to take off as in other countries of the region. As a result, consumer credit has acted as a substitute for microenterprise lending, resulting in very high rates of indebtedness.

- **For formal SMEs, access to finance depends on the characteristics of the country’s financial system:** in some countries, even access to bank finance may be difficult; in others, where financial markets are developed, the most successful of these enterprises may be able to finance themselves even through equity finance. Access to finance for this category matters for poverty dynamics because it could trigger their growth and productivity, with direct and indirect effects on hiring and conditions for poor workers. Solutions for this category include development of the domestic financial system, state support (e.g. in the form of credit guarantees) and public–private partnerships (PPPs) for BDS. Credit scoring and transaction- and asset-based lending techniques, such as leasing, seem promising in enhancing SMEs’ access to finance, but more evidence is needed on their effectiveness. The private equity industry has been flourishing in recent years in developing countries, particularly in Sub-Saharan Africa. Most actors focus on large- and medium-sized firms; however, some specialised investment firms have emerged. This is another area where more evidence is needed to verify the effective ability to reach out to small enterprises.

Saving and insurance services can greatly increase poor people’s resilience in the face of the multiple risks they face, and create the conditions for greater investment in informal micro-businesses. In this sense, they are an important component of any pro-poor private sector development strategy. CPAN’s Financial Inclusion policy guide reviews key interventions to improve the access of poor people to saving and insurance services (see Box 9).

**Box 9: CPAN’s policy guide on Financial Inclusion – enhanced resilience through savings and insurance via linkages and digital technology**

Both savings and insurance can play a significant role for poor people in managing their often extraordinarily high-risk burden. Savings provide a general boost to resilience; insurance can underwrite risky activities like farming in the risk-prone environments poor people often inhabit.

The guide highlights four promising ways forward for policies and interventions that aim to include the poorest faster than would otherwise be the case:

- **Linking informal and formal financial services.** For example, interacting with informal savings groups can reduce the costs of transacting with poor individuals for financial service organisations – such as reducing the Know Your Customer burden substantially.

- **Linking social protection with financial services.** The social transfer provides a regular flow of money into an account, thus offering service providers a reason to expand their branch and agent network to very poor and remote areas. This also gives the recipient the opportunity of accessing other bank services, such as savings.

- **Making maximum use of the digital revolution.** Mobile money makes transfers key for poverty reduction easier (i.e. remittances and social transfers) and can channel a broad range of financial services at more convenient terms than those poor people usually are offered. To extend the
infrastructure required for digital platforms to the poorest and most remote communities, government subsidies to telecoms industries to extend existing networks may be required, as well as reforms in the regulatory environment.

- **Promoting weather-based insurance.** Scaling up pilot projects can increase the resilience of poor and near-poor farm households, especially those vulnerable to falling into or back into extreme poverty.

Source: Smith et al. (2015).

### 3.2 Measures to create opportunities

#### 3.2.1 Value chains

Value chains refer to the full range of activities required to bring a product from its conception to end use, including design, production, distribution and consumer support. Each activity can be contained within a single firm or divided among different firms through outsourcing or offshoring, with each segment adding different amounts of value to the final product (Gereffi and Fernandez-Stark, 2011). In GVCs, various stages of production occur in different countries, implying a discrepancy between where the value is created and where it is captured. Value capture is critically determined by the lead firms, which are usually buyers at the end of the chain (Lee et al., 2011).

One important way development of the private sector is occurring in developing countries is through integration into value chains – domestic, regional and global. Domestic value chains are important for regional development and can be an important driver of the creation of linkages. GVCs are important to compete in international markets and capture the gains from international trade. They have an increased importance in global production: up of two-thirds of world commerce is now trade of intermediate goods, mostly within value chains (IMF, 2013).

#### 3.2.2 The inclusive business approach

The inclusive business approach is based on the idea that businesses can make a profit while also having a positive effect on poverty and development by adapting their core business practices (Ashley, 2009). DFID (Ashley et al., 2014) uses the term ‘inclusive business’ to describe profitable, core business activity that tangibly expands opportunities for the people at the base of the economic pyramid, as producers, suppliers, workers, distributors or consumers – or as innovators. The approach has so far taken the form of four different types of business models (Ashley, 2009):

1. Selling products and services that are ‘needed by the poor and have a high development impact’, such as low-cost nutrient-fortified foods (often referred to as the ‘bottom of the pyramid’ approach, see below);
2. Large companies that ‘take deliberate action to expand development impacts through supply and distribution chains or R&D [research and development]’;
3. Domestic SMEs that ‘have local economic development as an explicit driver because they are embedded in the local economy’; and
4. ‘Social enterprises whose core product is of high social value’.

#### 3.2.3 The bottom of the pyramid approach

Many inclusive business initiatives follow the model commonly known as the BoP approach. The bottom of the pyramid refers to the socioeconomic segment of consumers and producers that primarily lives and operates local enterprises in the informal economy and has annual per capita income of less than $3,000 (London and Hart, 2011). BoP businesses are profit-oriented enterprises that specifically target the BoP demographic. They sell goods to and source products from the BoP, and often operate crossing traditional industry boundaries (ibid.). For example, Mi Tienda is a
Mexican distributor of non-perishable foods and personal care products that serves more than 6,500 stores, mainly in small, rural towns large retailers do not reach; Waterlife India builds and runs water purification plants to provide safe affordable drinking water to people living at the base of the pyramid in rural India; and Trustco Mobile in Namibia makes life insurance available to people living at the base of the pyramid through their mobile phones.

### 3.2.4 Public–private partnerships and challenge funds

PPPs are often employed to encourage the private sector to make investment in public goods and services and/or with large externalities. Increasingly, they are used to promote private investment in activities that can benefit the poor and have developmental outcomes. Various typologies of PPPs exist, including (Wiggins and Keats, 2014):

- Grants to private companies, often matched to the level of private investment. The level and form of grant maybe be defined through:
  - Challenge funds, whereby private firms submit applications for public grants to support investments in projects with the potential to generate market outcomes with social returns that are higher/more assured than private benefits, but with the potential for commercial viability (Pompa, 2013);
  - Pull funds, where a prize is awarded for companies that generate advances in specified fields, usually where a technical break-through is the mutual aim;
  - Matching grants, a government subsidy with the government reimbursing 50% of the costs firms incur;
  - Patient capital (i.e. capital with tolerance for risk, that has long time horizons, that is flexible to meet the needs of entrepreneurs and that is willing to forgo an immediate return in anticipation of more substantial returns down the road), where a public agency takes equity in return for finance but with concessional terms for reward of that equity;
  - Concessional loans from a government agency to a private company at low rates of interest or with long grace periods.

The rationale of PPPs is that, by sharing the cost (and risk) of investment in particular activities, they can alter the behaviour of firms in order to achieve commercial gains that will also benefit the poor.
4. What Is an Enabling Environment for Pro-poor Private Sector Development?

Improving the enabling environment means creating the conditions for the poor to participate in and benefit from private sector development. The objective of this part of the guide is to get private sector development programmers and policymakers and private sector operators to take this dimension on board, through their associations, their business development plans and national and local strategies, but also for governments to realise the connections between private sector development and some other policies if poverty is to be eradicated.

We can distinguish two main levels of the enabling environment for private sector development:

1. International – trade rules (including shock management), global investment climate, GVC governance;
2. National – rules of the game determining the investment and business climates and making markets more efficient and more inclusive:
   - **Monetary and fiscal policy**, including inflation control; all of this determining the pattern of growth;
   - **Key specific policies**: strategies to manage growth shocks (especially in LDCs), agriculture favoured, land tenure systems, value chains monitored, informal sector valued/not harassed;
   - **Governance reforms** that are concerned with issues of specific relevance for the poor, for example control of petty corruption and informal business taxes/rents, measures against harassment by local governments, monitoring of value chains for labour standards, social and environmental issues;
   - **Well-targeted public expenditure** in education for the poorest and more generally in enhancing human capital. This includes grants, scholarships and vouchers to the poorest households (for assets; for TVET; to support an apprenticeship; to promote financial literacy) and more generally a massive investment in seeing poor children through enough years of education to pull their families out of poverty;
   - **A positive environment for minimum wages and/or other labour market regulations.**

This section selects aspects of the enabling environment for which there is good evidence they are important to eradicating extreme poverty. Annex A provides a thumbnail summary of the evidence base for selecting key aspects of the enabling environment for the guide to focus on.

4.1 The international level

At the international level, **financial and trade regimes need to allow developing countries the policy space to develop their productive capacities and protect themselves** from financial or food price volatility as well as ensure macroeconomic stability. In many countries, especially in Africa, this has not been the case. Trade agreements also need to provide as much space as possible for preferential access by developing countries to the world’s wealthy markets, since preferential access can stimulate new export sectors.

**Structural transformation of developing economies towards exports, services and manufacturing is likely to provide opportunities for upward progression** for people escaping poverty; without it, these opportunities may be thin. The failure to conclude a World Trade Organization (WTO) trade deal and the transparency deficit in WTO decision-making may have held this back (Losch et al., 2012).

For the poorest, **developing agriculture is a strong priority**, although how this should be done is controversial (CPAN, 2012). There are well-known international obstacles to poor producers and wage labourers benefiting from some agricultural value chains: the subsidies provided by the US, the European Union (EU) and other Organisation for Economic Co-operation and Development (OECD)
countries in support of production of strategic or politically important crops and the barriers to importing processed agricultural goods from developing countries.

4.2 The national level

At the national level there are five aspects of the enabling environment for PSD which are especially powerful contributors to the eradication of extreme poverty, because they are particularly effective in removing the constraints the poor face in market participation and in making this participation beneficial to them. These are:

- strong policy and investment support for smallholder agriculture;
- land tenure reforms which take account of the complexities of achieving secure land rights in different contexts;
- anti-corruption initiatives; especially where these are focused on frontline service providers;
- reductions in harassment of informal sector operators;
- Improving the conditions of the informal sector and promoting formalisation.

4.2.1 Strong policy and investment support for smallholder agriculture

Smallholder agriculture is directly important as a very substantial provider of often not very good quality employment as well as market opportunities for poor people, and as a producer of food – the poorest are often net consumers. It is also indirectly important as a base for economic diversification – agriculture based industrialisation both formal and informal being a common route into structural transformation. The private sector invests both in agricultural production directly as well as agri-business, and through these channels affects wage levels and other aspects of labour standards, as well as the market opportunities open to smallholders, through contract farming or other marketing arrangements.

CPAN’s Agriculture Policy Guide spells out what a pro-poor enabling environment for smallholder agriculture looks like.

- The agricultural ‘paradigm’ needs to shift towards a focus on asset accumulation and asset protection, in the context of sustainable agriculture – with its strong emphasis on land and water management, and indigenous and other sustainable technologies.
- Ministries of agriculture and other agricultural agencies should begin to be concerned with farm workers, if they are not already, as a major poor constituency for their services.
- Infrastructure, pro-poor market arrangements and local institutional development (the co-ordination of private sector agri-business, farmers’ organisations, and local government activities) should all be much more significant concerns of policy than they have in the past. And so should support for non-farm rural enterprise.

4.2.2 Land tenure reforms

Policies that enable land accumulation are important to enabling the poorest people to take advantage of private sector development.

Creating secure access to land for smallholder farm households is critical for both investment and economic growth (Holden et al., 2013a). Escaping poverty most often has accumulating land as part of a household’s story, even where agriculture is not (as often) the main trigger for escaping poverty; and land accumulation is further involved in sustaining escapes from poverty (Shepherd and Scott, 2011; Shepherd et al., 2014).

Losing land is often a part of stories of impoverishment (CPAN, 2012; Shepherd and Scott, 2011). The world has recently focused on the drama of large-scale land ‘grabs’ by corporates or sovereign
wealth companies, and there are now voluntary guidelines for countries to regularise and prevent damage from such investments. But the majority of land losses occur in the normal course of much smaller market and other transactions. In the few countries where such data are reliable, the poorest 20% saw their access to land erode between the 1990s and 2000s, mostly as a result of some combination of population growth dynamics, land fragmentation and market operations (Lenhardt and Shepherd, 2013).

An inclusive approach to land tenure reform requires recognition of legal pluralism: the fact that multiple legal systems can coexist in the same place and at the same time. Alternative tenure forms include communal/community, customary and common property resource management.

Policymakers’ attitudes to land tenure reform are changing: modern reforms often recognise customary tenure as valid, as in the cases of Mozambique, Southern Sudan, Tanzania and Uganda. Customary rights there are becoming statutory: ‘customary rights to be registered without being extinguished and replaced with a different (and usually highly individualized) form of tenure. In some cases, collectively held properties like forests and rangelands may also be titled as belonging to a community’ (Wily, 2011: 5).

Box 10: The negative consequences of land titling in Kenya

Kenya’s land and titling policies can be used as an example. While administrations since 1922 have enjoyed root ownership and control over customary lands, this has in theory been in the interests of occupants, while in fact granting these administrations legal powers to dispose of those lands at will. The programme begun in the 1960s to convert occupancy into freehold entitlements was not entirely successful: less than one-third of the country area was covered, leaving other customary tenants uncertain of their rights. Even people who obtained titles through compulsory titling have preferred to regulate land transfer and use on the basis of local community customs. Most have not even collected their deeds and/or recorded change of ownership since. Nevertheless, millions of rights owned by women and family members were in law lost in the process of converting farm ownership to individual and absolute entitlement in the name of (usually male) household heads. Bureaucracy and corruption in land procedures and registries have seriously undermined the proclaimed sanctity of registered entitlement, on which trust the statutory system depends. Many communities feel more confident relying on customary norms for their tenure security.


In designing land tenure reforms, policymakers need to take into account that land titling may have negative consequence too (Boxes 10 and 11) and that customary tenure forms are not necessarily equitable. Land titling can also increase the risk of expropriation, because it legitimizes the expropriation of non-titled land, which poor people are more likely to own.

In fact, there can be very substantial inequalities among landholders and also between the entitlements of men and women. New legislation recognising customary tenure is an opportunity to address at least the latter. ‘With rising implicit land values, traditional leaders in many countries have started to map the boundaries of land under their own jurisdiction, often in ways that fail to follow due process and end up disempowering women or the poor, as in Ghana’ (Deininger and Hilhorst, 2013: 370).

Box 11: Strengths and limitations of land titling in Thailand

Large-scale land titling projects have become core pillars of rural development policy in South-East Asia since the late 1990s. Many follow a common approach based on collaborative arrangements between the World Bank, donors and private contractors.
In Thailand, land titling projects started in 1984 and are considered a success, and in fact a model for the region. By 1998, the number of title deeds on the country’s 26 million parcels had raised from 4 to 19 million; land value increased and so did land transaction. They were presented as a vehicle for national inclusion, accelerating titling in disadvantaged remoter provinces to stimulate their development. However, they have been criticised for approaching the issue as a mere technical exercise, neglecting social implications such as effects on inheritance and gender relations in different ethnic groups. For example, ownership is attributed to the household head, a role legally defined as male. However, the legislative framework so created contrasts with local customary law, because in Thailand land inheritance is passed from mother to daughter.

Source: Hall et al. (2011).

More countries could undertake the World Bank’s Land Governance Assessment Framework, so as to make information about land tenure more widely available in the public domain. The framework enables countries ‘to compare their land governance with global good practice in a structured, broad-based and participatory process’ (Deininger and Hilhorst, 2013: 355). When applied to eight countries, it was found there was a ‘rights recognition gap’ for local and community rights; that land administration institutions were rarely allowed to function well; and that countries were rarely well prepared to deal with large-scale land acquisition.

4.2.3 Anti-corruption initiatives

Enabling the environment for pro-poor private sector development means eliminating the forms of corruption that most strongly affect the poor. A 2008 UN Development Programme (UNDP) analysis for the Asia-Pacific region identified

[...] three areas to consider for focus – the police, social services, and natural resources – as, from a human development perspective, one criterion is clear: Governments should be seeking ways of reducing the forms of corruption that hit the poor the hardest [...] Hauling the rich and powerful before the courts may grab the headlines, but the poor will benefit more from efforts to eliminate the corruption that plagues their everyday lives [...] The dollar amounts may be relatively small, but the demands are incessant, the number of people affected enormous, and the share of incomes of the poor high (UNDP, 2008: 151-152).

Corruption (the need to make payments to officials, in this case) can act as a barrier to access to services for poor people who cannot afford to pay the hefty ‘taxes’ corrupt officials or police demand. Richer people’s superior ability to pay bribes may also create a zero-sum game – with respect to the use of natural resources like fish stocks or forests, for example. Elites then control resources and exclude poor people through corruption systems. Surveys regularly point to corruption being regular and widespread, and may involve sums that constitute a significant fraction of poor people’s annual income. The poorest are also least able to get redress through complaints systems.

Corruption acts as a mechanism to deter competition and can induce informality. In Brazil, for example, a much higher proportion of firms identified corruption as an obstacle to starting a business than saw it as problematic for growing an existing business (Campos et al., 2010).

As firms choose to remain unknown to avoid the corruption associated with business registration and regulation, informality in turn constrains productivity. There is evidence that corruption hampers employment growth. Lower corruption supports innovation and therefore productivity growth. Large firms that can relocate experience less demand for bribes than do SMEs (Forgues-Puccio, 2013).

Corruption is one of poor people’s responses to the lack of adequate employment opportunities. Where there are few employment opportunities, people ‘invent’ jobs as intermediaries

3 Brazil, Democratic Republic of Congo, Georgia, Ghana, Madagascar, Malawi, Nigeria and South Africa.
that help poorer people have access to goods and services in exchange for a ‘fee’ (e.g. poor women in India having to pay someone who tells them how to get access to health care services). Where jobs are poorly remunerated, people try to earn a profit from the rent position that having a job gives them, demanding bribes in exchange for their services.

Corruption affecting management and access to natural resources is particularly harmful for the poor, and also a major area of private sector investment in developing countries. As a result of corrupt systems, the poorest risk losing access to land through expropriations expedited through corruption and to water rights through rich farmers paying for water to flow to their land; and suffer from the over-harvesting of natural resources by more powerful groups using bribes to get around legitimate legal restrictions. More generally, such corruption leads to the loss of substantial public revenues – for example from non-payment of logging fees, which could otherwise be invested and used for the benefit of populations as a whole and targeted to the poorest.

There are two broad approaches to controlling corruption in the shorter term: 1) monitoring and non-financial incentives; and 2) changes to the rules of the game, decentralisation being one major example, deregulation another. A systematic review concluded,

[…] the most successful corruption-reduction strategies create a situation in which the potentially corruptible elected or career government official chooses not to engage in corruption because the cost of corruption outweighs its benefits. This can be brought about by increasing both the probability of being caught and the punishment if caught. It can also be brought about by placing the corruptible decision in the hands of someone who faces a naturally higher cost of being corrupt (Hanna et al., 2011: 6).

Monitoring needs to be combined with incentives (or punishments), and vice versa; without both, progress can be limited. Everybody involved in a decision-making process would ideally be monitored and have incentives to behave incorruptly – the chain is as good as the weakest link. This is very difficult, but a crucial part of private sector development. There may be some ways of tackling the lynch pins of systems of corruption; where communities have the power to unseat corrupt officials, for example through elections, community-based monitoring can succeed, and exposure in the media can be a necessary punishment.

Decentralisation can be successful where there is local organisational capacity and high levels of participation, and where service providers and decision-makers are held accountable, for example through community-based monitoring. Trusted non-governmental organisations (NGOs) can act as ‘midwives’ for decentralisation, helping empower communities (Hanna et al, 2011).

Reducing the corruption facing the poor by lower-level public functionaries and bribery by actors within the private sector itself (e.g. where employees are required to pay for jobs or information about jobs is not publicly available) requires ensuring all policy, services and entitlements targeted at the poorest are made publicly available and accessible. Overall improvements in transparency in policy implementation and service delivery are fundamental, as information asymmetry is a huge constraint for the poor.

In the long term, raising wage levels and better access to and ability to use public information are the answers to the forms of corruption arising between poor and near-poor people as a reflection of a lack of opportunities for real economic progress.

Anti-corruption initiatives for the natural resources sector include participatory resource management (forestry, fisheries); popular resistance and anti-corruption campaigns including informing stock markets; improving the quality of social and environmental assessments of investments; improved monitoring using independent monitors and new technology like remote
sensing, especially in remote regions that can be beyond the view of media and civil society scrutiny; and encouraging domestic as well as international companies to commit to corruption-free investments. Computerising land registration can also remove scope for corruption (UNDP, 2008).

4.2.4 The informal sector and formalisation

While posing both constraints and opportunities, the informal sector is not likely to turn any time soon into formalised wage employment in formally organised firms, and will accompany the path of economic development in many countries for decades to come. While hosting a disproportionate share of the poor, the informal sector can also offer opportunities for transformational enterprises and escapes from poverty. Informal enterprises should be valued for their contribution to the economy and integrated into local and national economic planning at both the local and the national level.

It follows that improving work conditions for workers in the informal sector is a key aspect of pro-poor private sector development. CPAN’s Employment policy guide outlines key interventions in this area (see Box 12).

Box 12: Employment policies for decent work

CPAN’s Employment policy guide argues that both additional employment opportunities and improvements in the conditions of existing jobs are essential if chronically poor households are to escape poverty through the work they do. For this to happen, governments need to recognise different types of informal jobs and officially acknowledge their contribution to the overall economy.

Workers in informal wage employment should fall under legal frameworks governing labour markets, enjoy freedom of association and organisation and be included in official statistics. Inclusion in minimum wages legislation is a priority for both domestic workers and homeworkers, along with the promotion of written contracts. For agricultural and construction workers, enforcement of health and safety standards is a key first step, along with abolition of child labour undertaken in dangerous conditions. Abolishing discriminatory regulation against internal migrants would also give support to work migration as a strategy of poverty escape.

Voluntary codes and standards may act as a catalyst to strengthen labour laws and their enforcement. However, increasing workers’ knowledge of what they are entitled to, along with external audits, is also necessary to ensure standards are enforced.

Sustained economic growth is certainly important to generate productive employment, and labour market policies (including their extension to labour contractors) will improve the quality of work for chronically poor people. However, none of these is sufficient on its own to create decent work.

Tackling that challenge also requires investments in education and training, infrastructure and social protection as well as support for workers’ organisations. This is beyond the remit of any one single body, and the involvement of all government ministries and public institutions is, therefore, crucial.

Source: Scott et al. (2013).

Formalisation is a slow process that is going to require time. In some cases, it may be more appropriate to strengthen existing poor micro and small businesses in the informal sector before pushing for their formalisation.

In Laos, the vast majority of the agriculture sector is informal, and so is most of the trade taking place across the borders with Cambodia, China, Thailand and Vietnam. However, the government holds the view that now is not the time to push formalisation. It typically does not condition its assistance or extension services on whether an enterprise is formally registered. In fact, a number of businesses that started many years ago with government assistance have either only recently formalised or not
done so yet (USAID, 2013). This strategy can be successful if interventions to prepare businesses for formalisation are implemented, for example enabling them to grow and increase productivity.

However, formalisation is necessary to enable firms to grow and increase the number of workers covered by pension plans and health insurance. Ultimately, the best way to incentivise firms to formalise is to improve the general business environment.

Reforming the tax system in a way that does not penalise large domestic companies is key to improve the business environment. Currently, these firms tend to be an easy target for governments desperate for tax revenues or for corrupt officials looking for bribes. This generates incentives to stay small even for businesses with growth potential (Edwards, 2015). Improving the efficiency of the tax system and removing corruption would also spur the growth of SMEs. It is also necessary to reduce the bias of tax systems in favour of international private capital. While this is meant to attract foreign direct investment (FDI), in many African countries it has led to competition between countries that is undermining their revenue base (Moore, 2014). Possible solutions include regional agreements that define the criteria for the granting of tax exemptions for investors, the procedures through which those decisions will be taken and upper boundaries on the amount of exemptions. Other agreements could subject all contracts with foreign investors, especially in the extractive sector, to standard national tax regimes and therefore to foregoing special arrangements for certain types of investment (Mascagni et al., 2014).

Business association can play an important role in promoting formalisation, for example helping SMEs bargain the terms of formalisation, rights and regulations with the state. In Kenya, in August 2005, local jua kali (informal economy) associations formed an umbrella body (the National Informal Sector Coalition (NISCO)), which gave the numerous small associations a more powerful voice and led to first results, including a large hawkers market in Nairobi, allocation of titled land to NISCO members and allocation of KSh 2 billion for a revolving loan fund administered jointly by NISCO, microfinance institutions and the government (Orwa, 2007).

4.2.5 Reducing harassment of informal sector operators

The informal economy by definition lies outside the formal requirements of the law, and therefore beyond the regulatory arm of central and local states. This does not prevent harassment by officials and police, which is particularly evident in cities and in urban slums or shanty towns (informal settlements).

Entrepreneurs can face eviction alongside informal housing tenants; extortion to allow them to continue in a particular place; and very difficult processes to acquire simple business registrations and the lowest level of formality. Two of the four common abuses of human rights that disproportionately affect poor people are relevant to private sector development: 1) laws, regulations and practices that unduly restrict the performance of life-sustaining behaviours in public spaces by people living in poverty; and 2) urban planning regulations and measures related to the gentrification and privatisation of public spaces that disproportionately impact people living in poverty (UN General Assembly, 2011). For example, a relatively large number (49%) of people in Uganda’s informal sector report harassment by municipality or market management officials. High and unregulated taxes, high rent, frequent power cuts (for workers working at night) and a reduction in the number of customers were some of the other insecurities facing informal sector workers (Banik, 2013).

The case of Duong Kiri, selling shadow puppets at Angkor Wat temple in Cambodia (Box 13), well illustrates how poor governance and lack of institutional support can thwart the opportunities offered by the growth of international tourism for young people with an entrepreneurial spirit.
Harassment can also come by other informal operators: for example, many vendors operate under exploitative terms, having to pay fees and extortionate rents and protection rackets to patrons often associated with some form of organised crime.

Box 13: Shadow puppet business at Preah Khan temple, Angkor Thom district, Cambodia

Duong Kiri is 25 years old and has lived in an orphanage most of his life. There, he learnt how to make shadow puppets, and, with their encouragement, he decided to set up a small business producing and selling shadow puppets to tourists visiting the temples in Siem Reap. He rents a stall in front of a smaller temple, 5 km from Angkor Wat temple. Five young men who also used to live in the orphanage help him with the business, expecting a salary only if the business becomes profitable.

One of the problems facing Kiri is the high rental cost: he has to pay $40 rent and another $40 for the police guarding the temple territory. He is not sure of the purpose of the additional $40 taken by the police; he knows such bribes are requested from all business operators in the area, but the latter pay a lower amount. His attempts at bargaining a lower fee failed because the police claimed part of the money they took went to upper-level authorities.

Kiri receives no institutional support and does not know who to ask for help. Yet his business would have a good chance of prospering if given support to attract more visitors and reduce the fixed costs.

While there is plenty of evidence of the problem (e.g. Box 14), there is little documentation of anti-harassment measures. Few cities have adopted a coherent policy – or set of regulations – towards street trade. Rather, most cities assign the ‘handling’ of street traders to those departments – such as the police – that deal with law and order (Chen, 2007). Vendors need and would like a coherent set of regulations that provide a framework for street trading. Improving access to justice and making serious effort to contain organised crime are also necessary.

Box 14: Penalisation and harassment of street vendors

Of particular concern are penalisation measures that target those who seek to gain a living through street vending. In many states, street vending is severely restricted or illegal, as is buying from a street vendor. Research shows street vendors turn to vending because they have no other form of income, have low levels of education and lack employment opportunities. Street vending is a means for the poorest and most vulnerable to earn money to support their families and their livelihoods. When states impose bans, onerous licences or strict restrictions on street vendors, they severely undermine the rights of persons living in poverty to gain a living. While states can adopt reasonable regulations, law enforcement officials are often given wide discretion to determine zones, days and times when street vending activities are banned or restricted. This makes street vendors more vulnerable to abuse by law enforcement officials, private individuals or gangs. As a result, they often suffer threats to their life and physical integrity, as well as bribery, extortion and unlawful seizures of their wares. When street vendors are harassed or bribed or their wares are destroyed, deep structural inequalities and power imbalances, communication and information barriers and a lack of access to legal representation make it nearly impossible for them to complain to police. In countries where street vending is illegal, individuals are too afraid to report mistreatment or harm to police for fear of being criminalised themselves. This is particularly acute with respect to street vendors who are members of vulnerable groups that face widespread discrimination and have historically had negative relationships with police and authorities, such as women, migrants and ethnic minorities.

Source: UN General Assembly (2011).

- Measures to reduce harassment and penalisation partly come back to the control of corruption discussed above, but it are also about having consistent regulations that do not leave too much room for discretion on the part of local officials.
Ending stigmatisation of informal enterprises as illegal or criminal may be the most effective intervention against their harassment. In many countries, regulation of informal activities is treated as ‘crime mitigation’ rather than as an administrative matter (Chen et al., 2013). So long as stigmatisation persists, only the punitive side of government regulation reaches them. This, however, should not prevent the government from pursuing informal enterprises that do implement illegal activities.

Ending stigmatisation and harassment demands recognition of negative and positive rights. For example, for street vendors, negative rights include the right not to be subjected to harassment, confiscation of goods, evictions, arbitrary warrants and convictions; positive rights include the right to vend in public spaces under fair and reasonable restrictions (balancing competing rights of different users of public spaces) and the right to infrastructure services as vending sites (Chen et al., 2013).

4.3 Other aspects of the enabling environment

Other aspects of the enabling environment matter for the poor, but for these the evidence is less strong and convincing or the linkages with poverty dynamics are more attenuated and less direct.

4.3.1 Investment climate reforms

There is an indirect link between reforms and poverty reduction through economic growth, given the strong evidence that growth in average incomes does reduce extreme poverty; however, it is less clear whether these reforms also have a direct impact on poverty (IFC, n.d.).

‘Ease of doing business’ is one way of measuring success in investment climate reform. Scores here are low in Africa, although there are exceptions, such as Ethiopia (Box 15). Such reforms have been found to have little or even sometimes negative impacts on small, informal businesses. For example, reforms in Tanzania made very little difference to microenterprises in general and street vendors in particular, and in some cases even contributed to their marginalisation. They excluded street vendors, by creating further barriers and constraints to their registration (e.g. they require a fixed legal address), and resulted in limited security of tenure (Lyons et al., 2014; Box 16). Further, there is limited evidence that reforms to the regulatory environment can address the issues and constraints identified above in a context of widespread informality and structural weakness of the private sector.

Box 15: The impact of investment climate reforms on street vendors in Tanzania

Street vendors have largely remained untouched by the multiple policy initiatives attempting to improve their business environment. In fact, they have often been the subject of punitive municipal strategies, endorsed or initiated by central government, including street clearances, demolition of stalls and other facilities, confiscation of goods, fines and imprisonments. Confiscation and evictions have had the opposite effect to that intended by reforms, severely reducing the informal capital held by vendors. A desk study and field studies carried out in Tanzania in 2007 and 2011 found ‘doing business’ reforms had served micro-businesses badly. Interventions meant to promote land and property formalisation applied to street vendors have resulted in limited security of tenure.

For example, after evicting vendors, municipalities were required to identify alternative, legal vending sites. In Mwanza, they came up with two solutions, both strongly inadequate. The first was to provide vendors with plots on municipally owned market sites, where they would construct kiosks at their own expense. The vendors enjoyed a five-year rent holiday, at the end of which ownership of the shops transferred to the municipality. This build-operate-transfer model meant vendors had to find construction capital just when they had lost their business through eviction and, despite having made the capital investment in the premises, could not use it as collateral as they were not the owners.
The second innovation was to evict vendors to rotating weekly market sites, on which not only was development not permitted but also no security of tenure was possible because the municipality could revoke the zoning of the site for a market at 24 hours’ notice.

Source: Lyons et al. (2014).

Box 16: Doing business in Ethiopia

The table below shows how Ethiopia ranks in terms of ease of doing business and per capita income among all countries in the world (column 1) and among Sub-Saharan African countries (column 2). The country is doing well, in particular with regard to ease of starting a business. For example, the required procedure and time to start a business in Ethiopia is less than the average for Sub-Saharan Africa and almost equal to the OECD average. With regard to ease of doing business, only eight Sub-Saharan African countries rank higher. Recent survey data on managers’ perceptions indicate that the investment climate in Ethiopia improved greatly between 2001 and 2007, and the rate of complaint among respondents to the 2006 Investment Climate Survey is significantly lower than the low-income cross-country average with respect to almost all institutional factors (World Bank, 2009).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>All countries (N=167)</th>
<th>Africa (N=42)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall ease of doing business</td>
<td>97</td>
<td>9</td>
</tr>
<tr>
<td>Starting a business</td>
<td>85</td>
<td>9</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>56</td>
<td>7</td>
</tr>
<tr>
<td>Employing workers</td>
<td>87</td>
<td>15</td>
</tr>
<tr>
<td>Registering property</td>
<td>99</td>
<td>13</td>
</tr>
<tr>
<td>Getting credit</td>
<td>118</td>
<td>17</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>115</td>
<td>18</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>37</td>
<td>8</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>146</td>
<td>30</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>56</td>
<td>7</td>
</tr>
<tr>
<td>Closing a business</td>
<td>68</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Bigsten and Söderbom (2011), using data obtained from www.doingbusiness.org

4.3.2 Commitment and effective capacity in implementing policies in support of SMEs

In some countries, good policies exist on paper but are not implemented because of lack of institutional capacity at the local level, with national and international NGOs and donors providing support to micro businesses and SMEs instead (see Box 17 for Cambodia).

Box 17: Implementation of the SME Promotion Policy in Cambodia

In parallel to the development of the National Strategic Development Policy 2014-2018, the Cambodian government is updating its SME Promotion Policy, which envisions three key strategies:

- **Promote the business enabling environment** by providing an incentive scheme for eligible SMEs (tax regimes, access to finance, SME clustering, linkages with FDI for large industry);
- **Facilitate SME capacity development** by providing technical assistance, facilitating linkages to global market, access to technology, coordinating useful information-sharing;
- **Promote private–public BDS and financial assistance for SMEs** by creating a BDS business enabling environment, BDS bridging and a public financial scheme for SMEs.
An improvement in the state’s institutional capacity will be necessary for implementation of these strategies. The previous SME Development Framework (2005-2010) was good on paper but hardly implemented. For instance, state support at the local level hardly exists for any types of SME activities – its only livelihood support is agricultural extension (Ngo and Chan, 2010). The various licensing and tax obligations imposed by the state have been seen more as additional burdens than as assistance to SMEs; subnational administrations have no clear role in facilitating local economic development, except for the 36 municipalities that have one window service offices (OWSOs) to facilitate business licensing and registration. But, even with OWSOs, the usual administrative burdens, including informal fee payment, have not been reduced (Weiser and Plummer, 2015). So far, those who actually deliver support to SMEs are private actors offering needed services (agricultural extension, input supplies), microfinance institutions (MFIs) and donor-funded projects.

4.4 Industrial policy ‘on the move’

Inclusive industrial policy may also be a powerful contributor to pro-poor private sector development, although the evidence for this is less strong. Increasing the share of manufacturing and (to a lesser extent) services in GDP is often seen as critical for countries emerging from poverty, as this can generate the jobs low-skilled workers need and provide a basis for technological progress and dynamic increases in productivity (UNIDO/UNU-MERIT, 2012). Industrial policy is also concerned about linking a country’s internal growth and investment plans with the international economy.

Industrial policy can play a fundamental role in eradicating poverty by promoting the expansion of those sectors where the poor are more likely to be employed, and where linkages with informal MSMEs are more likely to be created (e.g. the food processing sector). Jobs are needed to enable people to escape poverty – even low-paid or informal ones if they provide a degree of security; manufacturing jobs are often more productive, better paid and more secure than agricultural jobs – so they help reduce the vulnerability of people above or around the poverty line. Sustaining escapes from poverty requires the diversified economy that gives people choices about where they can deploy their skills, and opportunities for a gradual upgrading of productivity and skills.

Useful lessons on industrial policy come from the rapidly growing East and South-East Asian economies, which have been more successful than those in Africa, Latin America and South Asia (Rodrik, 2009). Africa has so far almost failed to enter the production of components for global markets, something now critical for promoting exports. ‘Conventional wisdom has it that a key reason industrial policy has worked poorly in Africa is that it has not created enough pressure on firms to become productive and meet the standard requirements of the international market. It also seems […] industrial policy should not attempt to favour individual firms or be too narrowly focused’ (Bigsten and Söderbom, 2011:15).

Twenty-first-century industrial policy focuses on export promotion and reinforcing a country’s comparative advantage in the face of stiff competition. This differs from the traditional approach to industrial policy, which consisted primarily in protecting ‘infant industries’ (largely with import tariffs), with governments selecting and selectively promoting particular firms or sectors.

The new approach includes identifying niches in global production networks, promoting resource-based manufacturing (in resource-rich countries), mitigating and adapting to climate change and removing the barriers to entrepreneurial industrialisation.

Removing barriers to entrepreneurial industrialisation encompasses the development of innovation systems, removal of barriers to new start-ups (e.g. through deregulation and subsidised credit) and support for the integration of domestic firms into global value chains (Szirmai et al., 2013; UNU-WIDER, 2013). To achieve this, market intelligence capabilities are now a greater asset than access to technology – which is less of a problem in the 21st century. This is the ability of managers to
communicate and interact efficiently with suppliers and buyers abroad; knowledge of where to position the firm in relation to existing distribution networks and how to develop new distribution channels; ability to create a well-organized and efficient working group (Sutton and Söderbom, 2010). Market intelligence capabilities can be obtained among returning migrant entrepreneurs and traders experienced in international markets, according to recent research (Bigsten and Söderbom, 2011). Ensuring there are the right incentives for entrepreneurs who can create the necessary international (and domestic) linkages is a new area for industrial policy.

**Exchange rate policy is a determinant of industrial policy’s success:** successful East Asian economies used exchange rate undervaluation to promote exports (Rodrik, 2009); cases of failure (especially in Latin America and Africa) have often been associated with exchange rate overvaluation.

An inclusive industrial policy is one that promotes ‘structural change in a way as to enhance competitiveness and productivity growth while increasing the incomes of the poor more than proportionally’ (Altenburg, 2011: 37).

Industrial policies in their classic form are not necessarily inclusive in this sense though (Altenburg, 2011). To be inclusive, the economic policies outlined above should be accompanied by safeguards for vulnerable groups, a focus on labour-intensive industries or the strengthening of linkages between SMEs and larger firms. In these sense, inclusive industrial policy can draw on the lessons of interventions to promote pro-poor value chains. It is also critical to complement industrial policies with measures to improve incomes for poor workers in the short term – in particular through support to agricultural productivity and rural household enterprises, but also through social protection (Fox et al., 2013; Page and Shimeles, 2013). The varied experience of the BRICS countries (Brazil, Russia, India, China and South Africa) is instructive (Box 18).

**Box 18: Industrial policy and poverty reduction in the BRICS**

Growth and structural change have contributed to the reduction of poverty in all BRICS countries to varying degrees. The decline in poverty has been highest in China, where manufacturing absorbed a large number of migrant workers from rural areas. Factors such as increases in labour compensation per employee, high aggregate growth rates and the contribution of services have gone towards a significant reduction of poverty in Brazil. In the Russian Federation, the more moderate reduction of poverty is largely attributable to wage growth in the non-market service industries. The poverty rate in India and South Africa has decreased to a lesser extent owing to the dominance of low-productivity employment (India) and the decreasing share of manufacturing in GDP and employment, low productivity and the large wage gap between skilled and non-skilled workers (South Africa).

The industrial policies in the BRICS focus on internationalisation, including export promotion and the attraction of FDI, and on capability development – namely, technological upgrading and learning. Those countries in which industrial policy has enhanced the country’s latent comparative advantages and facilitated foreign investment and technology transfer, and whose policies are adapted to changing external circumstances, have been most successful in achieving economic growth and progress (UNIDO and UNU-MERIT, 2012).

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4 This publication consciously tries to bring poverty reduction onto the industrial policy agenda. Very few publications do: the two discourses seem quite separate. A recent example is the Szirmai et al. (2013) compendium, which has only one reference to poverty in its index.
5. What Is the Evidence of the Poverty Impact of Different Interventions for Private Sector Development?

This section reviews the evidence available on the impact on poverty and the poor of the different interventions discussed in the previous sections. An effort was made to identify rigorous evidence for the impact of different interventions, but only a limited number of studies were found that focus specifically on the impact on the poor, still less on the poorest or poverty dynamics. Sometimes, it was not possible to establish whether the beneficiaries of an intervention were poor or non-poor. Accordingly, the policy guide considers interventions not exclusively targeted to the poor, discussing the possible implications they may have for poverty dynamics.

5.1 TVET and traditional apprenticeship

Training focused on improving the employability and working skills of young people is an excellent way to promote poverty reduction, because youth is a critical phase of the life cycle, when the risk of falling into poverty is high but so also are the chances of escaping poverty.

Vocational training can have higher returns than secondary education (AEO, 2012; Kuépié et al., 2009), with evidence so far showing a small positive effect on employment, formal employment and monthly earnings in low- and lower-middle-income countries (Annex Table B1; Tripney et al., 2013).

The most successful TVET programmes are those that provide a balanced combination of measures: a mix of classroom training and on-the-job, internship-style vocational training targeted towards the most disadvantaged youth (see evidence in Annex Table B1). Impact seems to be higher for women than for men, suggesting that focusing on women can be more cost-effective (Annex Table B1; Attanasio et al., 2011; Tripney et al., 2013).

However, supply and demand of TVET is low, with little information available to potential students, and low willingness to be away from work (Haan and Serriere, 2002). The cost of training is a significant constraint and one of the factors preventing young and poor people from making more use of it (Annex Table B1; Hicks et al., 2012).

In the absence of access to TVET, traditional apprenticeship training is the most important source of technical and business skills for workers in the informal sector. For instance, in Senegal, some 400,000 young people are in apprenticeship annually, compared with some 7,000 graduates of formal vocational training centres. Up to 80% of skills development in Ghana is through apprenticeship (AIDB and OECD, 2008). In urban informal sectors in West Africa, apprenticeships in small (informal) firms and on-the-job learning account for over 90% of the training of young workers (Nordman and Pasquier-Doumer, 2011). Kim Darany’s experience (Box 19) in Cambodia illustrates both the importance of vocational training and the lack of institutional support it faces.

Box 19: Vocational training and competition in the motorcycle repair business

Kim Darany is 31 and married with two children. Since 2008, he has run a motorcycle repair workshop along the new road in Leang Dail commune, having learnt the skill on a training course in Siem Reap, for which he paid $300. Four young men work with him as apprentices: he receives a monthly fee from Plan International in exchange for providing them on-the-job training; the NGO pays them a small salary ($250). Darany’s experience demonstrates the importance of vocational training but also the lack of institutional support to such training in Cambodia: he had to invest his own capital to acquire the skills to implement the business, and his apprentices rely on the support of an NGO.

The business has prospered since the construction of the new road, as motorcycles have become a popular transportation means. However, activities have slowed in past months because of increased...
competition: the nearby area has about 10 motor repair businesses. Darany is aware investments are required for the business to keep growing, but he is reluctant to borrow money from an MFI because he is currently supporting his in-law family and deems it unwise to assume further risk. He also thinks he might not be able to use the loan to expand the business because he is not well educated.

Increased local competition, leading to a reduction in revenues, is a problem facing other businesses in the area, including tourist restaurants and village grocery shops. Micro and small businesses with few resources are those harmed the most, because they are less able to diversify or invest to differentiate their business. Interventions that help poor people acquire the capital and skills to diversify their non-farm activities would contribute to local pro-poor private sector development.

Traditional apprenticeship has considerable advantages but also limitations. The main advantages are its practical orientation, self-regulation and self-financing. It is accessible also to those who lack the educational requirements for formal training, including the rural and urban poor. Focusing on apprenticeship can therefore contribute to strengthening the productivity of informal workers and therefore the sector’s ability to compete and innovate. However, it also has some important limitations. It may be sought through social connections and relations, so access to opportunities is limited by each person’s social network. This implies exclusion of applicants from the poorest households (Hossain, 2012). It is gender-biased and lacks standards and quality assurance (World Bank, 2010). Being based on learning by doing, it can perpetuate the adoption of traditional technology and hamper innovation.

5.2 Business development services

One of the important roles of BDS is to encourage poor entrepreneurs to invest outside the overcrowded low-return and low-barriers-to-entry sectors. Remaining in these sectors often leads to chronic poverty. BDS can stimulate higher-return investments by helping the entrepreneur assemble the factors that will enable that investment to work, and in turn this can help people exit poverty and sustain progress. The case of Kim Darany in Cambodia (Box 19) shows small informal firms struggle to diversify their activities because of lack of skills and capital, and suggests integrated business services could contribute to overcome these obstacles.

5.3 Business and management training

Business training does help firms start up (Cho and Honorati, 2013; De Mel et al., 2012); advice provided does get followed, at least to an extent (Annex Table B2; Bloom et al., 2012; Bruhn and Zia, 2011; Karlan et al., 2012); there are positive impacts in terms of productivity, income and profitability (Cho and Honorati, 2013; McKenzie and Woodruff, 2012). The characteristics of the beneficiaries (including level of education, motivation, size of the firm) do matter in determining the impact of training, suggesting tailored training, accompanied by follow-up consultancy sessions, may increase training’s effectiveness (Annex Table B2; Mano et al., 2012).

However, there is no evidence on whether target firms expand and hire more employees as a result of training. This may be linked to the fact that management of human resources does not seem to be a topic dealt with in business training for MSMEs. Training on these issues could enhance firms’ productivity (through more efficient use of labour) and also induce potential employers to hire more workers, thus increasing employment – and the size of the firm.

It may be more difficult to involve women than men in business training. In many contexts, women face constraints such as child care and household duties that prevent them from benefiting from business training (Annex Table B2; Berge et al., 2011; Fiala, 2014; Giné and Mansuri, 2011).
5.4 Microfinance and financial assistance to SMEs

Numerous assessments of the impact of microfinance have found no convincing evidence it has a positive impact on the wellbeing of poor people (Duvendak et al., 2011). However, microcredit and micro-saving can have positive effects, especially in terms of raising savings and consumption. Further, the picture is much more mixed when it comes to the impact on income and business outcomes (Annex Table B3; Stewart et al., 2010, 2012). In general, having it available in case of need is better than not having it.

Microcredit targeting women does seem to lead to a stronger impact, and group lending is the best modality to deliver credit to previously unbanked people (Annex Table B3; Attanasio et al., 2011; Banerjee et al., 2011; Crepon et al., 2013).

Aversion to risk often operates as a constraint for poor people, who do not take on loans for investment even if microfinance is available (Box 20).

Box 20: Aversion to risk preventing some micro and small businesses from borrowing in Cambodia

Keo Davi is 34 and lives in a village in Angkor Thom district. She has two daughters; her husband works as casual construction workers in Siem Reap and visits the family twice per month. She runs a small grocery business and farms a small plot of land where she grows rice for self-consumption.

Davi has been running the grocery shop for about five years, and the business has been improving year after year. Sales are particularly high during the harvest, when people are busy and prefer to buy food locally rather than travelling to town. She thinks the increase in local demand also owes to the fact that many people in the villages have sold their land and therefore have more cash available.

Davi has many ideas for expanding her business, including opening a noodle soup shop as soon as electricity is brought to the village. However, she is not planning to take a loan from an MFI to finance these activities because she is afraid of being unable to repay the loan. She would rather borrow money from her relatives, as she already has to buy a motorbike and repair the house.

When it comes to promoting creation and development of microenterprises among poor and very poor people, unconditional cash grants, especially in combination with some form of training, may be more appropriate and more effective than microcredit (Annex Table B4; Blattman et al., 2014; Box 21). Cash grants can also help small business promote sustained escapes from poverty. For example, there is evidence that providing cash grants to small businesses may result in large and long-lasting increases in profits and profitability, although the impact may differ for men and women (Annex Table B4; De Mel et al., 2008, 2012; Fafchamps et al., 2011).

Box 21: The Youth Opportunities Programme in Uganda

The Ugandan government implemented YOP to promote self-employment for youth 16-35. YOP invited young adults organised in small groups to submit an application for a grant to cover training and the tools and materials they needed to run a business, either together or on their own. Facilitators helped them organise groups, build budgets and apply but played no role after the application phase; there was no formal mechanism for follow-up or fund accountability. Groups were responsible for creating a five-person management committee and doing their own budgeting and allocating. The money was given to the group and the management committee distributed the money according to the group’s plan. The average group had 22 members and received a grant of $7,100.

Prior to the evaluation, the government disbursed hundreds of grants in a first phase. Researchers studied the second and last phase (from 2008 to 2012) of grant-making, when an additional 265 grants were available for 535 eligible groups. Those not picked were tracked as a control group.
Four years after the grant disbursement, most grant recipients were practising skilled trades and earning more money than the control group. In particular, young adults who had received the grants were 65% more likely to be working in a skilled trade such as carpentry, tailoring, metalworking and hairstyling. They were also earning 41% more than the control group. Those who received the grants were also 34% more likely to register a business and 40% more likely to pay business taxes and keep business-related records. Among those who received the money, 76% enrolled in vocational training, with levels similar for men and women, compared with 15% of the control group. In both cases, the most popular training was, in descending order, tailoring, carpentry, metalworking and hairdressing.

It is significant that women benefited the most from the grant, with their incomes 84% higher than those for women in the control group. In contrast, incomes for men who received the grants were 31% higher than incomes of those in the control group. This suggests women face higher constraints than men in getting access to finance and other assets (including skills) required to start self-employed activities. Removing these constraints has therefore had a larger impact on women than on men.

Source: Blattman et al. (2013).

5.5 Women’s entrepreneurship as a way out of poverty

The increased economic participation of women has positive effects on poverty dynamics. Households with working women have higher income/consumption and a more diversified livelihood portfolio. Higher female earnings and bargaining power translate into greater investment in children’s education, health and nutrition, which leads to welfare improvements at household level as well as economic growth in the long term at national level. Transferring economic resources to women has a greater impact on poor household’s wellbeing than transferring those same resources to men, in particular inducing greater investments in children’s health and education (Yoong et al., 2012). Promoting resources for enterprise or employment to vulnerable categories of women such as the separated, widowed and divorced is especially critical to tackle poverty and prevent impoverishment.

Economically empowered women can be important actors for change at household and community level (Box 22). Risk of impoverishment can diminish greatly for women if, through workforce participation, they have access to social insurance. Further, promoting women’s economic empowerment is fundamental to stop and prevent the intergenerational transmission of poverty (Bird and Higgins, 2011).

Growing evidence suggests providing poor and non-poor girls and young women with access to economic assets and developing their skillsets may improve their ability to generate an income, increase the amount they can save, support their participation in school and increase their sexual health knowledge (Dickson and Bangpan, 2012).

Women are highly entrepreneurial. Women-owned businesses comprise up to 38% of all registered small businesses worldwide, and the number of women-owned businesses in Africa, Asia, Eastern Europe and Latin America is growing rapidly (DFID, 2010).

In Vietnam, women manage around 30% of its approximately 3 million non-agricultural household businesses and around 24% of the 113,352 incorporated enterprises (Rodgers and Menon, 2010). The 2010 Global Entrepreneurship Monitoring survey found Ghana, unlike any other country where the survey was conducted, had more women than men starting a business (Quartey et al., 2014).

Box 22: Life history of Pham Van Duong, Hoa Binh, Vietnam – escaping poverty through his wife’s skilled job

From a poor household living on livestock-raising and unstable informal jobs, Duong’s family escaped poverty thanks to his wife Nga’s skilled job in Luong Son Industrial Park.
The family escaped poverty in 2012. Originally, both of them worked at home: Duong took care of the livestock and Nga worked for different private tailors. She started working as a textile worker in Luong Son industrial Park, about 8 km away, in 2010. Her income as a freelance tailor had earned her more money than the current job, but the textile company provides a more stable income, with full social insurance benefits. Nga first knew about the industrial park from the advertisements scattered around the district, and prepared the application on her own initiative. She was among the first in the neighbourhood to work there.

In 2011, Duong worked as a garment cutter in the industrial park for six months. Then, the family's total income was greater than it is now, but the forthcoming birth of the third child prompted him to quit the job in order to have more time to take care of the family. Duong decided to be the one who quit, not his wife, because he saw the relative advantage: his wife has a more advanced skill that allows her to work in a production unit with more orders, while he has lower-quality skills and worked in a unit with a less frequent production load. Now the family income is about VND 5 million.

There are, however, two main limits to entrepreneurship as a way out of poverty for women:

1. In carrying out their economic activities, women often faced additional constraints to those faced by men. Especially as entrepreneurs, they meet disproportionate obstacles in accessing and competing in markets. These include women’s relative lack of mobility, capacity and technical skills in relation to men, but also deep-rooted discriminatory practices and stereotypical attitudes that prevent them from accessing appropriate financial support or undertaking other operations required to build and run their businesses.

   Even apparently gender-neutral regulations can have a stronger negative impact on women. For example, complex registration procedures tend to be a bigger burden because of women’s higher costs of being away from home and because they are usually less literate and may need to be accompanied by a man to travel to the relevant offices. In Vietnam, there has been a considerable expansion in the share of female-owned enterprises from, around 20% in the 1990s to around one in every three in 2009. The expansion appeared to date from the passage of the Enterprise Law 2000, which, among other things, radically simplified registration procedures so new enterprises could be registered within an average of seven days as opposed to 90 (Bjerge and Rand, 2011).

   Another common and recurrent problem is access to land and property ownership (especially linked to inheritance), because this is largely administered under customary law, which is often discriminatory of female land ownership. Lack of formal property ownership implies no collateral and therefore limited access to credit and start-up capital (IFC, 2007).

   Gender norms and economy-wide legal discrimination against women limit women’s access to and use of formal and informal financial services. Globally, more than a billion women have no interaction with a bank or financial service provider and over 70% of women-led SMEs are either un-served or underserved financially (Women’s World Banking, 2014). Data from the World Bank’s Women, Business and the Law database show that, in countries where women face legal discrimination in the ability to work, head a household, choose where to live or inherit property or are required by law to obey their husband, they are less likely than men to own an account and to save and borrow (Demirguc-Kunt et al., 2013).

2. Self-employment and entrepreneurship are default options and not a choice. In many cases, self-employment is a default option for women, one in which they engage as a result of missing and imperfect markets and a lack of access to better employment opportunities (Kabeer, 2012). Ability to take up waged labour may be constrained by low education and gender-related social norms, which can also increase the costs of job search (Emran et al.,
2007). At the same time, self-employed women may find it easier to balance their work and family/maternity responsibilities because of the greater flexibility offered (Box 23).

**Box 23: Women balancing self-employment and care duties in Hanoi, Vietnam**

Le Thi Anh is 38 years old and was a single mother for four years, while her husband was in a rehabilitation centre. During this period, as her children were small, she gave up her vegetable selling business to switch to selling rice cakes in front of Thang Long Industrial Park: the former job had required her to wake up very early and the latter business allowed her to go back and forth between work and home so she could keep an eye on the children.

Nguyen Thi Binh (32 years old) is the single mother of three children. In 2014, she decided to give up more profitable vegetable-selling at the community market to operate a beverage stall at her rented room as she could not continue the vendor job for health reasons. Besides, she could take better care of her children by working from home. She says that she is unable to obtain a job at the industrial park because companies do not want to hire unskilled workers over 30 years old.

Where women’s entrepreneurial activities are the results of a ‘forced choice’, and are dictated by considerations other than the profitability of their enterprise, the chances for growth and poverty escape are greatly diminished (Emran et al., 2007). Women operating under these circumstances will struggle to acquire the necessary entrepreneurial ability to expand their business. Their priorities may lie in ensuring their family’s survival and welfare and they may find it difficult to hire and manage labour and to exercise the requisite degree of mobility.

It may be that, given the choice, women would opt for wage employment rather than self-employment, and wage employment is best suited to tackle chronic poverty, especially for the most vulnerable and excluded groups of women. In Honduras, for example, those in full-time waged work expressed greater satisfaction than those in more flexible part-time work (Kabeer, 2012). In Vietnam, many of the informal enterprises that closed over the period of the recent crisis did so not for reasons of business failure but because of better-paid waged jobs (Cling et al., 2011).

A study by Dolan (2004) in Uganda found that, while less than 10% of female household heads worked in wage labour compared with 40% of male heads, their employment put them in the middle-income tercile compared with those in self-employment, who were in the lowest tercile.

**5.6 Value chains, upgrading, downgrading and impact on poverty**

**Global, regional and national value chains can significantly contribute to employment creation and pro-poor growth.** Generating jobs through value chain development can provide economic opportunities for women, youth and other marginalised groups and access to new, larger markets, capital and inputs for poor producers and entrepreneurs. Poor households are incorporated in value chains in three ways: 1) through product markets as producers; 2) through labour markets as wage labourers; and 3) through service markets as providers of services to the chain (Seville et al., 2011). Incorporation in value chains can have positive effects on all poverty dynamics because it can generate income improvement, security and stability; reductions in vulnerability and risks and food security (ibid.). The effects above can tackle chronic poverty and prevent impoverishment. In Vietnam, incorporation in the bamboo value chain is offering routes out of poverty to poor households (Box 24).

**Box 24: Contribution to poverty reduction of the bamboo value chain in Vietnam**

In north-west Vietnam, bamboo is produced almost exclusively by small-scale farmers on their own land in mountainous areas. Of the total of 95,000 ha of luong (large) bamboo supplying the emerging northern Vietnam industrial bamboo cluster, approximately 43,000 ha (46%) are located in three districts of Thanh Hoa province. In 2006, 60% of bamboo farmers in the three districts were poor and
90% were ethnic minority. A panel survey of 210 farm households and 110 bamboo traders operating in the area found over fourth- fifths of surveyed households cultivated luong, with two- thirds of these harvesting culms (stems) at least once a year. An impact assessment study found poverty (measured using the poverty line of $1.25 per day) in the three districts fell from 61% to 55% between 2006 and 2008. During this time, poverty fell by 8 percentage points among households engaged in cultivating, processing or trading luong but remained unchanged for households without luong incomes. Matched difference-in-difference estimates show household incomes were approximately $231 an annum higher among households with luong than without incomes from luong.

World demand for bamboo products is estimated at more than $11 billion per year, and projected to grow to $15-20 billion per year by 2018. China currently produces over 80% of global output and accounts for over 60% of global consumption. Vietnam has the potential to outcompete China with its lower bamboo and labour costs, and the expansion of the bamboo value chain could be an important driver of poverty reduction.


However, for incorporation in value chains to also sustain escapes from poverty, it is necessary for incorporation to come with social and/or economic upgrading. Upgrading is acquisition of technological, institutional and market capabilities that allow the poor to improve their competitiveness and move into higher-value activities.

**Economic upgrading**, or ‘moving up the value chain’, of producers/entrepreneurs can occur by either shifting to more rewarding functional positions or making products with more value-added invested in them and/or achieving better returns from the same activity. It benefits poor producers enabling higher returns (because of higher prices or higher productivity), improved product and process quality, better organisational capacity and access to services, including credits, inputs and technology.

**Social upgrading entails improvement in workers’ rights and entitlements**, and enhancement of the quality of their employment, for instance with workers enjoying higher wages and strong labour standards workers as a result of economic upgrading. In other words, poverty reduction through incorporation in value chains requires an improvement in the terms of participation for both salaried workers and independent producers.

**Integration in (global) value chains does not always lead to economic and social upgrading and on the contrary can also have negative consequences for the poor.** Participating in value chains can expose small producers, poor people and women to more vulnerable and lower incomes, as well as social and physical harm owing to differences in power and control over resources. Access to the economic opportunities and to employment from GVCs is embedded in existing social rules and power relations that determine the distribution of costs and benefits generated (DIIS, 2008). Evidence shows most chains tend to favour better-off farmer, processors and traders (as well as selected commodities and geographic regions), while poor actors get squeezed out (Ponte, 2008). Women can lose out from economic upgrading, as men often take over production and marketing when a product, even a traditionally women’s crop, becomes financially lucrative.

**The horticulture value chain offers an example of the risks and opportunities for the poor offered by inclusion in GVCs.** Increased demand in Africa from supermarket chains has contributed to the growth of horticulture and agri-food. Over 350,000 workers (mostly women) are now employed in horticulture in Kenya, South Africa and Uganda (Lee et al., 2011). Supermarkets coordinate sourcing from production through distribution to retail, which limits the number of intermediaries and thus favours upgrading. They also impose quite stringent quality, social and environmental standards.

Being part of the horticulture value chain can give farmers opportunities for economic upgrading through diversification of production and/or production to a higher standard. Social upgrading can
come through improved working conditions and rights. Other benefits, especially for smallholders, come from access to inputs on credit, (relatively) stable prices and greater demand. In Kenya, larger commercial firms have benefited from economic upgrading and some smallholders have been able to access GVCs as out-growers to larger firms, thanks to access to technological inputs, finance and marketing distribution channels. There has also been some social upgrading for workers – although low real wages and job insecurity remain. In Uganda, however, where smallholder farmers dominate horticulture and access to input and market linkages is limited, the latter have been unable to access GVCs or upgrade, and at best manage to supply small ethnic markets in Europe (Evers et al., 2014).

However, inclusion in supermarket value chains also poses many challenges to suppliers. Supermarkets tend to transfer both costs and risks on to them. Suppliers are demanded to increase quality and improve productivity, while facing lower prices and additional charges. Supermarkets also demand suppliers absorb the shock when patterns of demand change unexpectedly, ordering at the last minute and confirming or changing details at short notice. Suppliers are left struggling to fulfil their orders or with unsold excess stock (Hearson and Eagleton, 2007). The pressure to deliver more for less is passed on to workers in the form of low wages, job insecurity and denial of basic human rights.

In some cases, firms pursue economic upgrading through social downgrading of workers, particularly women and migrant workers, who are put in highly flexible, unprotected and insecure work. This is often the case when supplier struggles to meet buyers’ requirements. Changes in global market conditions, such as fluctuating prices, and unbalanced negotiations with producers affect employees and farmers through lower wages, short-term contracts and unsustainable targets, long hours and no income security (Oxfam, 2004).

For example, inclusion in the garment industry and apparel value chain is no guarantee of social upgrading. An important driver of investments in the garment commodity chain has been the expansion of the ‘value’ clothing sector in the UK, where supermarkets are competing to become cheap fashion retailers. In countries such as India and Bangladesh, this implies declining or stagnant real wages for garment workers, which are sometimes so low they are insufficient to cover basic needs (ActionAid, 2010). In Bangladesh, garments workers earn as little as £0.05 per hour, while being forced to work very long hours (ibid.). Even when supermarkets – and other multinational companies – do pay the minimum wage, in many countries this is set below the living wage – that is, a wage that allows workers to cover their and their dependants’ basic needs for nutritious food and clean water, health care, education, shelter, fuel, clothes and transport, as well as providing for some discretionary income (McMullen and Maher, 2009). Table 2 shows that, in many Asian (garment-producing) countries, the wage levels set by the government, with which companies are obliged to comply, are below the living wage, as estimated by the Floor Wage Alliance.

### Table 2: Minimum wage and living wage in Asian garment-producing countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Minimum wage</th>
<th>Living wage/Asia Floor Wage* 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>€49.56</td>
<td>Taka 25,687; €259.80</td>
</tr>
<tr>
<td>China</td>
<td>€174.60</td>
<td>Yuan 3,132; €376.07</td>
</tr>
<tr>
<td>India</td>
<td>€51.70</td>
<td>Rupee 16,240; €195.30</td>
</tr>
<tr>
<td>Indonesia</td>
<td>€82.14</td>
<td>Rupiah 4,048,226; €666.85</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>€50.31</td>
<td>Rupee 46,168; €259.46</td>
</tr>
<tr>
<td>Malaysia</td>
<td>€196.06</td>
<td>Ringgit 1,556; €361.21</td>
</tr>
<tr>
<td>Cambodia</td>
<td>€72.64</td>
<td>Riel 1,582,668; €285.83</td>
</tr>
</tbody>
</table>

Note: * The Asia Floor Wage is the living wage estimated by the Asia Floor Wage Alliance under the assumptions that a worker needs to be able to support themselves and two other ‘consumption units’ (1 consumption unit = 1 adult or 2 children); an adult requires 3,000 calories a day to be able to carry out their work; and in Asia food costs account for half a worker’s monthly outgoings. It amounts to PPP $725: the table gives the equivalent in local currency and euros for comparison (based on exchange rates as of 8 October 2013 from xe.com). All figures are for a monthly salary.

Source: [http://www.cleanclothes.org/livingwage](http://www.cleanclothes.org/livingwage)
5.7 Private sector development at the bottom of the pyramid

The poor are supposed to benefit from BoP businesses:

- **As buyers and consumers of goods and services** that are cheaper, more efficiently distributed or better designed to serve their needs;
- **As producers**, supplying to firms operating at the BoP, or as employees working in their farms or factories;
- **As independent small traders** (often referred to as ‘entrepreneurs’) selling BoP products door to door or in micro-franchising in their local markets.

Evidence shows that, so far, beneficiaries have been involved in BoP businesses’ activities mainly as consumers. For example, of 29 inclusive business receiving support from Sida through the Innovations Against Poverty (IAP) grant programme, approximately two-thirds of IAP initiatives reach poor people as consumers, selling them goods and services such as lighting and energy, cooking fuel and stoves, health care, sanitation, weather information, agricultural advice and financial services. The other third engages with people at the BoP as producers/suppliers, entrepreneurs or employees (Sida, 2013). DFID’s Business Innovation Facility (BIF) (see Box 25) estimates to reach 3.5 million households at the bottom of the pyramid within five years of the start of the programme, the greatest majority as consumers (Ashley et al., 2014).

BoP businesses’ potential impact on poverty is large, given the evidence that the poor lack access to basic facilities such as safe drinking water and sanitation, health care or electricity and end up paying too much money for the goods and services they consume. For example, expenses for lighting and cooking can be higher than the average bill of people with an electricity connection, and drinking water bought from a vendor can be tenfold the price of piped water. Many BoP businesses focus on providing access to better-quality basic services such as power, health and water.

However, evidence so far suggests BoP initiatives help people who have already escaped poverty avoid re-poverty and sustain those escapes but may be less able to reach the chronically poor or the poorest people. For example, the experience of DFID’s BIF (see Box 25), on the basis of the limited income data available, suggests some people at the BoP who are being reached by companies in the BIF portfolio do live on less than $2 per person per day. The majority, however, may be in the ‘next billion up’, with still limited access to cash, credit, markets and basic goods needed for wellbeing (Ashley et al., 2014). The only business in BIF’s portfolio explicitly targeting a vulnerable group is Jita (formerly the Rural Sales Programme) under CARE Bangladesh, specifically targeting destitute women. Its business model focuses on the poor as independent small traders, however, not as consumers (Ashley and Schramm, 2013).

Key factors determining whether a business can sell profitably to the BoP include identifying the right business model, technology solution or product. Adjustments of the initial business models and products may also be necessary after the first stages of implementation. For example, some of the products commercialised by Sida’s IAP grantees turned out to be too expensive or not appropriate for the BoP. This led to the redesign of the product or service and to some grantees building a diversified portfolio that included both BoP and non-BoP products. In other cases, it was the business model that turned out to be inappropriate and needed adjustment. A number of IAP grantees, for example, realised they needed to target a different market segment in order to be commercially viable. This may mean a different route to market – for example using retail distribution rather than a network of local entrepreneurs.

Finding the most appropriate technology for customers living below $500 per year was a key factor for companies providing various types of cooking and lighting solutions in developing countries. Of 33 companies reviewed, only those selling cook-stove and solar lantern technologies achieved economic
viability. Some other companies (e.g. mini-grid providers) required government subsidies of 50-100% of the cost to be able to sell profitably to the BoP (Panapanaan et al., 2014).

**Improved public provision of basic services (such as safe drinking water and electricity) may still be preferable to BoP solutions.** While there is still limited evidence of actual impact on poverty of the latter, the problem remains that the poor bear responsibilities for too many aspects of their lives (Banerjee and Duflo, 2011). BoP provision of basic services, for example decentralised safe water systems (including distributed/vended water and point-of-use treatment) may improve access to clean water, but they are only a relative improvement, as they still leave the responsibility (and the cost) on the shoulders of poor people. In this sense, they may be short-term or second-best solutions.

**Box 25: DFID’s Business Innovation Facility**

DFID’s BIF operated between 2010 and 2013 with over 300 companies in five countries (Bangladesh, India, Malawi, Nigeria and Zambia), providing technical and advisory support through an international network of service providers and a country management team. It also sought to promote the generation and exchange of knowledge, face to face, in print and on the Practitioner Hub. It sought to help firms with ‘inclusive business’ ideas to come to scale not with funding but by addressing constraints such as lack of information, skills or external partnerships.

A review of the performance of 40 businesses selected from the beneficiaries’ portfolio, ranging from domestic start-ups to multinationals, found that overall commercial and social returns are small and variable but are emerging and expected to grow significantly over the next five years. In particular, five businesses have reached profit; the majority are some years away from achieving the operational scale they will need to be viable.

Source: Ashley et al. (2014).

**Even when outreach to poor consumers does happen, it cannot be taken as guarantee of a positive impact on poverty reduction.** The only way to guarantee this would be if the products marketed by the inclusive businesses were perfect substitutes of goods already present in the consumption basket of the poor. Any other additional good, even if designed with the explicit intention of ‘increasing wellbeing’ and addressing essential needs (e.g. Danone’s fortified yogurt with additional nutrients (Ashley, 2009)) may or may not lead to a reallocation of expenditure by poor households towards a ‘higher-quality’ consumption basket. The impact on poverty is even more uncertain for non-essential products such as soft drinks or deodorants, or a face whitening cream, such as Fair & Lovely cream commercialised by Unilever in India. This latter was commercialised as an affordable product designed for poor women; in fact, it at best diverted expenditure from essential products and at worst contributed to perpetuating prejudices against women with darker skin (Karnani, 2007).

Further, outreach to the poor as consumers may harm the local private sector through a displacement effect, as local producers not included in the initiative may experience a significant decrease in the demand for their product or service (Wach, 2012).

**Women are particularly vulnerable to these effects as they have been the target of many BoP initiatives:** women purchase and use most goods marketed through the BoP system, as they are usually the managers of the everyday household consumption budget. Women are targeted also because their ‘care role’ in the household puts them in a stronger position to diffuse new consumption practices. This makes them particularly vulnerable to possible negative side-effects of BoP marketing.

**Poor people’s involvement in BoP activities as producers and small traders could improve their productive capacities and earning opportunities and stimulate the expansion of the local private sector directly and indirectly.** Employment effects can be expected from larger companies’ investment in inclusive business.
One such example is the Coca-Cola/SABMiller value chain, which supported an estimated 4,244 formal jobs in El Salvador and 3,741 formal and informal jobs in Zambia. It also supported 64,000 small-scale retailers in El Salvador and 25,000 in Zambia (Oxfam America et al., 2011). However, in the absence of a counterfactual and of detailed information on the work conditions of those employed in the informal sector, it is difficult to determine the positive net impact on poverty (Wach, 2012). This is in addition to the fact that the employment generated can be highly cyclical and easily displaced. Good design needs to be complemented by monitoring of side-effects.

Inclusion of the poor as independent sellers or ‘entrepreneurs’ is also no guarantee of a positive impact on poverty. This village entrepreneur (VE) business model entails the integration of independent entrepreneurs into a company’s value chain as ‘last mile’ distributors and retailers. The company supplies the product or service and additional support; the VE sells the product, provides customer support, invests capital, earns commission and takes risks. One of the first examples of this model is Hindustan Unilever (HUL)’S Project Shakti, active since 2000. Women travel door-to-door to sell products such as soap and shampoo to rural households, small businesses and convenience stores. They need make no asset investment but must find their own working capital to buy stocks of goods from HUL (Dutt, 2012). Many BoP business models have since sought to include women in the value chain as sellers and distributors and have been claiming to promote women’s entrepreneurship.

However, solid evidence of this impact is lacking and the model seems also to have strong limitations. First, the working time flexibility it offers may suit women who have to balance work with household duties, but these latter, together with social norms, may also restrict the ability of women to travel from village to village. The model may also be inappropriate for poor women, as it does not guarantee a stable income and thus does not reduce vulnerability. Also, the flexibility and the range of independent choices VEs can make may in fact be rather limited. For example, women often must wear branded uniforms and carry branded bags, which can attenuate the stigma associated with petty trade but offer little substantive relief from the everyday vulnerabilities informal workers experience (Dolan and Roll, 2013). iSmart in Nairobi asks its entrepreneurs to wear a branded uniform but Nairobi City Council has declared that these constitute a form of advertising, iSmart must, but does not, have a licence for this, which leaves individual entrepreneurs at risk of being arrested (ibid.).

Overall, the success of this business model depends very much on the context. In particular, evidence shows the model is likely to succeed if three conditions are present (Dutt, 2012: 1) sufficiently strong local demand for the product or service (this implies those more likely to succeed in this model are those that address the primary needs of the poor. New or unknown products will face stronger constraints in being commercialised by a single distributor); 2) feasible and context-compatible level of financial risk for the entrepreneur (coming from upfront and ongoing investment costs, regularity of sales and amount of compensation); and 3) adaptation of the model so the lead company takes on some risk, capital costs or promotion activity, as in the BASIX model (see Box 26).

**Box 26: Common Service Centres in India as hybrid ‘village entrepreneur’ model**

The Indian government launched the CSC initiative in 2006 to provide government, private and social sector services through IT-enabled rural kiosks. The CSCs offered a variety of IT and non-IT services in areas such as health, education and e-governance. In 2008, the Indian MFI BASIX started investing in the CSC programme. It implemented a hybrid ‘village entrepreneur’ model, covering the upfront capital costs itself and hiring local young people to run the kiosks on a fixed salary and commission. The ‘entrepreneurs’ were in fact employed and did not carry the entirety of the financial risk. Incentives remained, however, for the employees to manage the kiosk with an ‘entrepreneurial approach’. This model has proved rather successful. Even with the limited offerings initially available, BASIX was able to generate enough revenue through financial and documentation services to make the inclusive business model sustainable.

Source: Dutt (2012).
5.8 Public–private partnerships and challenge funds

PPPs can be used to promote the creation of new, competitive firms by demonstrating the potential to be realised from engaging in a particular activity or market. They can also increase demand for inputs, which stimulates the creation of suppliers.

For example, in 2007 DFID provided a matching grant to help a mobile phone operator introduce mobile banking to Kenya. M-Pesa mobile banking not only improved access to credit for thousands but also directly created many new enterprises. In a country with 850 bank branches in total, by March 2009 there were 7,000 M-Pesa agents (USAID, 2009) buying and selling phone credit (which serves as a virtual currency for banking); by April 2011, there were 28,000 (Jack and Suri, 2011). Even accounting for the fact that some may have been operating firms prior to the introduction of M-Pesa, and then diversified their activities, the rise in the number of M-Pesa agents is phenomenal. The Australian Agency for International Development's (AusAID’s) 2012 Annual Portfolio Report on the Enterprise Challenge Fund (ECF) monitored 21 projects in seven countries in the Pacific and South-East Asia and found that, since 2009, 43 new businesses had entered the market as suppliers and competitors to the ECF projects.

PPPs can be used to leverage private investment in key sectors, such as agriculture. For example, a private sector-led initiative entitled the Malawi Cotton Seeding Treatment Programme received a grant of £290,000 from DFID’s Business Linkages Challenge Fund to improve cotton seed varieties. The new varieties were sold at subsidised prices to smallholder farmers, who contracted to sell their cotton to the ginning firms that initiated the programme and committed to funding it for the next three years. After two years, 180,000 farmers were involved in the programme; Malawi’s national crop production increased by 265% in three years, enabling smallholder farmers to increase their income significantly (Ruffing, 2006).

PPPs are also used for agricultural research and extension; attempts to do this have so far had limited and mixed results (Poulton and Macartney, 2012), but recent evidence on grant funds specifically targeted to smallholder farmers reveals they can indeed promote agricultural innovation, including among poor farmers (Box 27).

Box 27: Impact of grant funds on agricultural innovation among small and poor farmers

A systematic review explored the impact of three modalities of grants for agricultural innovation specifically targeted to smallholder farmers: vouchers, competitive grants and farmer-led innovation support funds. Twenty impact studies plus 42 largely qualitative studies were considered, covering evidence from Colombia, Latin America, Malawi and Uganda. All studies found evidence of positive impact on agricultural innovation; negative outcomes (e.g. on natural resources because of clearing of tree species) reported were always accompanied by a positive outcome in another area, such as an increase in yields or income.

Voucher systems are found to lead to the uptake of practices that enhance innovation in the smallholder farming system. Effective targeting mechanisms to reach non-users are key and offering a menu of options is more effective than offering a ‘one-size-fits-all’ technology package.

Business development grants do translate into investments in technology or support services to business proposals from farmer groups. However, the change in income through the grant-supported business proposals is not necessarily attributable to the grant, and definitely not to the grant alone. Initial organisational social capital of the groups is a necessary precondition for developing these proposals and handling the grants. Participation of farmer organisations in the governing body is considered important by most authors.
For **farmer-led agricultural innovation support funds**, all studies identify positive effects of the interactive relationship between farmers and technical supporters or researchers, although the quality of the evidence is weaker (there is no counterfactual). Direct participation of farmers in governance structures contributes to aligning the activities supported by the grant with the poor farmers’ priorities.

Source: Ton et al. (2013).

**Build-operate-transfer/build-operate-own PPPs have been used in both developed and developing countries to promote investment in infrastructure and other public goods.** In these arrangements, a private firm funds some of the initial investment and may operate the facilities created, and in return is paid according to the subsequent public use of the facility (Wiggins and Keats, 2014). Compared with public investment, they are supposed to raise more capital and be more efficient in construction and operation activities. In practice, however, this type of PPP is difficult to implement and evidence of positive impact is hard to find. Governments need considerable skills and knowledge to establish partnerships that do deliver value for money while attracting good companies to build and operate infrastructure. This may be particularly difficult for those investments that would benefit the poor directly, such as rural roads, for which it is hard to charge users and earn revenues.

The ability of this type of PPP to involve the poor directly depends largely on how the built-in causal chain is designed. For example, the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) initiative (Box 28) aims to trigger a ‘big push’ and promote the expansion of agricultural value chains that can include smaller and poorer farmers. Outreach to the poor is not automatic: it depends on the creation of linkages and the expansion of private investment. The Addis Ababa Integrated Housing Development Program (AAIHD) (Box 29), by contrast, takes a more direct approach: it aims at creating jobs for low-skilled poor workers while also providing a social service such as housing. This type of PPP appears to have a larger and more direct impact on the poor; but it is also more likely to be less profitable and less sustainable in the medium to long term.

**Box 28: The Southern Agricultural Growth Corridor in Tanzania**

SAGCOT is a joint initiative of the government of Tanzania, development partners, NGOs and private firms – both national and international. The initiative aims to develop the potential of 350,000 ha of farmland to produce rice and other grains, pulses, sugar and livestock. It hopes to increase annual farming revenues by $1.2 billion, lifting the income of 450,000 farm households.

Coordinating the action of the various actors it aims at generating $3 billion from public and private investments. A $50 million catalytic fund from public money will provide low-cost capital for start-up agriculture businesses. One early example of leveraging private investment comes from Yara Fertilisers, which in early 2012 announced a 420 million fertiliser terminal at the port of Dar es Salaam.


**Box 29: The Addis Ababa Integrated Housing Development Program in Ethiopia**

This active labour market programme aims to tackle the housing shortage and unemployment in Addis Ababa by supporting small enterprises to construct low-cost housing using labour-intensive technologies novel to Ethiopia. The assumption is small firms create more jobs per unit of investment by virtue of being more labour-intensive, with the jobs created concentrated among the low-skilled and hence the poor. The project aimed to construct 192,500 houses, generate 80,000 job opportunities, support 1,300 existing MSMEs and create another 1,000 new ones over five years.

Successful candidates could establish an enterprise, either by themselves or with others; they could choose to form a single proprietorship, cooperative or trade association, but should employ fewer than 50 people and have a capital stock worth less than Birr 5,00,000 (approximately $55,000). The
programme 1) provided and, in certain cases, subsidised a place to work; 2) facilitated access to credit; 3) provided training and access to inputs (on credit); 4) subsidised machinery for firms producing rebars (reinforcement bars) or hollow blocks; 5) provided training to firms engaging in pre-cast beam and hollow block production; and 6) awarded contracts to programme firms.

The Addis Ababa Construction Enterprise Survey collected data to analyse impact, especially in terms of technology usage, labour intensity and earnings. It found programme firms did not adopt different technologies and were not more labour-intensive than non-programme firms, thus this was not a route to creating more jobs per unit of investment. However, there is an earnings premium for participants, who tend to be relatively well educated, which is heterogeneous and highest for those at the bottom of the earnings distribution. This premium associated with participation is unlikely to be driven by selection bias and does appear to be larger for the poorer-paid workers.

Source: Rijkers et al. (2010).

Challenge funds are designed to encourage the private sector to pursue activities it would not otherwise undertake and that have explicitly pro-poor outcomes, contributing to trigger systemic change. Pro-poor developmental effects are expected at three levels: the business recipient of the grant; wider beneficiaries – those who will supply to or demand from the business; and the local economy through a crowding-in or imitation effect. Systemic change can also happen at the level of the enabling environment, for example if challenge funds are used to incentivise firms to apply specific laws and regulations (Chilver et al., n.d.) or if they are the trigger for certain reforms (Box 30).

**Box 30: Challenge funds to achieve change in the business enabling environment**

In India, DFID’s Financial Deepening Challenge Fund (FDCF) provided financial support to three different approaches to micro-insurance. All three encountered regulatory impediments that were linked to the wider business enabling environment. For example, existing regulations stipulated that insurance sales agents had to receive at least 100 hours of training before they could be licensed. This was excessive for very straightforward micro-insurance projects. One project in particular - which was creating self-help groups and training women to sell the products – was anxious to have this modified, as the women involved would have not been able to spend so much time away from their homes and families. The FDCF helped raise the profile of such issues, focus regulators’ minds on the practicalities of such impediments and get the micro-insurance businesses to work together to lobby for changes.

This experience suggests a challenge fund targeted to enterprises can help raise and tackle issues in the business enabling environment. As it provides incentives to action to the actors involved, it may even constitute a shortcut to achieving change with respect to traditional government-to-government enabling environment programmes.

Source: Chilver et al. (n.d.).

While donors increasingly use challenge funds to support inclusive business initiatives, recent reviews of their impact and also of other PPPs have concluded there is insufficient evidence to make claims on their effectiveness in supporting poverty reduction (Brain et al., 2014; Elliot, 2013; Heinrich, 2013; Kessler, 2013).

Reviews have typically been conducted in ways that do not take account of the issues identified above, such as additionality, systemic change, cost opportunity and displacement effects, which are essential to make claims on their poverty effects (Brain et al., 2014; Elliot, 2013). In particular, little emphasis has been put on understanding and assessing the wider possible impacts of the innovations introduced with challenge funds, and priority has been given to achieving immediate
performance targets from directly funded projects (Brain et al., 2014). Box 31 provides an example of the few rigorous reviews conducted so far.

**Box 31: AusAID’s Enterprise Challenge Fund**

AusAID’s 2012 Annual Portfolio Review of the ECF finds that over half of the 21 funded projects had invested further funds to scale up their operations, demonstrating input additionality. A case study in the review that also demonstrates behavioural additionality is that of WING, a provider of mobile phone payment services that enable customers to transfer, store and cash out their money using a mobile phone. For WING, the cost of rural expansion was too high to justify on commercial grounds. The ECF matching grant funded 25% of the cost of extending affordable payment services to rural Cambodians, and was used for education programmes and marketing. By the end of March 2011, two years after the grant was awarded, WING had reached more than 200,000 customers, most of whom were previously ‘unbanked’. The company's money transfers are 50% cheaper than other locally available methods. WING is training around 200 new sales agents each month, and partnering with MFIs, which – by processing payments electronically – can reduce the cost of loans.

Source: Coffey International (2012)
6. How Do You Make Interventions for Private Sector Development Poor-poorest?

This section assesses interventions to create capabilities and opportunities discussed in the previous sections in terms of their ability to tackle chronic poverty and sustain poverty escapes. It also provides guidance on how to enhance their outreach to the poorest people. The evidence reviewed did not always differentiate by type of poor people, so recommendations are also based on pre-existing knowledge of poverty dynamics. A few of the interventions also protect the poorest people from risk, and therefore prevent their further impoverishment, but these are not sufficient to mitigate all the risks facing poor and near-poor entrepreneurs. It follows that the interventions we discuss should be accompanied by social protection and social insurance programmes to ensure poverty is eradicated.

6.1 TVET and traditional apprenticeship

Can TVET be a positive force for pro-poor private sector development?

TVET and traditional apprenticeship can significantly benefit all poverty dynamics but are particularly appropriate to help the poorest people working as self-employed/own-account workers. Achieving outreach to and impact on this category requires the following actions:

- **Removing financial constraints**: subsidising vocational training, for instance through vouchers, and enabling income earning while in the programme, or soon after. Effectiveness of training may increase if credit constraints are relaxed, as in BRAC’s programme in Uganda. Here, beneficiary girls received life skills and livelihood training and were then enrolled in BRACs microfinance programme. After two years, girls who had received the two training courses had 35% higher labour force participation than non-participants (Annex Table B1; Bandiera et al., 2012b);

- **Removing other constraints, such as material costs** (e.g. transport) and **social and cultural constraints** (e.g. lack of time for young mothers);

- Particularly useful for chronically poor people: **TVET programmes that offer ‘second chance’ schemes** to reconnect young people who have fallen out of the education system to education and training (Hossain, 2012);

- **Improving the quality of vocational training and its relevance for the job market** through stronger participation of the private sector in the design and updating of programmes – including employers in the informal sector (Hossain, 2012).

Policymakers and private sector operators and associations can adopt the following approaches to improve informal apprenticeship systems. These would be useful to young people from chronically poor households, provided they have the networks to access the apprenticeship in the first place:

- **Capitalise on the existing system** – for example encourage business associations to play an important role in supporting and improving apprenticeship systems;

- **Strengthen the apprenticeship contract** so it specifies details of working time, time off, expected and maximum duration of apprenticeship, the conditions that determine completion, the respective rights and duties of the apprentice and the craftsperson, the duration of a trial period, issues of liability and how conflicts or breaches of the contract are to be addressed;

- **Add new skills** through training master craftspersons, involving larger enterprises and allowing apprentices to move from one workshop to another;

- **Set quality standards and test emerging apprentices** – this could be a job for small business associations;

- **Open the recruitment process to women and disadvantaged groups**, and encourage women entrepreneurs to take apprentices;
- Link the informal apprenticeship system with national formal training institutions – apprentices could benefit from some classroom training (OECD, 2014)).

6.2 Business development services

BDS can benefit the vulnerable non-poor, helping them deal with risks that might otherwise force them out of business, and can also play a fundamental role in triggering the transformative potential of SMEs in the informal sector.

How can BDS reach the poorest people and help them exit chronic poverty?

BDS best address the needs of the poorest people when they are integrated (financial and non-financial) and subsidised.

There is substantial evidence that programmes integrating different business development services have a stronger impact. Many BDS programmes increasingly combine training programmes, business plan competitions, financial support for start-ups, provision of shared infrastructure and marketing and advertising consultancy (Altenburg and Eckardt, 2006). The downside of integration is that, while the financial sustainability of the non-financial services is enhanced, efficiency may be reduced, as may demand-driven service uptake (Harper and Tanburn, 2005).

BDS providers that aim to reach poor and near-poor entrepreneurs cannot be expected to be profitable businesses themselves, because, even if clients do pay some fees, these will be insufficient to cover the full costs. Charging fees is likely to exclude the poorest people. If the service provider is compelled to stay profitable, it will likely drift upwards and supply services for non-poor entrepreneurs, with higher willingness to pay. So, it is important that the impact of BDS provision is assessed on the grounds of increases in client incomes, increase in survival rates and jobs created – not on the profitability of the service provider or the clients’ willingness to pay for the service.

6.3 Business and management training

How can business and management training have a positive impact on poverty dynamics?

Business training can sustain poverty escapes and trigger the transformative potential of SMEs in the informal sector, and also tackle chronic poverty if properly targeted and designed.

Business training needs to be tailored to the needs, characteristics (including size of the business) and pre-existing skills of the beneficiaries. Chronically poor micro and small entrepreneurs with low education levels may make better use of training providing simple instructions or ‘rules of thumb’, to improve their daily (financial, commercial, productive) operations (Annex Table B2; Beaman et al., 2014; Drexler et al., 2014).

Business training should come with some form of capital transfers when possible, for both men and women, to remove the material constraints facing the poorest entrepreneurs (Annex Table B2; De Mel et al., 2013; Klinger and Schündeln, 2011). Cash grants are more appropriate for chronically poor micro-entrepreneurs; loans may be more efficient for the more established self-employed, helping sustain escapes from poverty, and for small firms, especially if they are used to borrowing money.

To ensure the benefits are long-lasting, training programmes should include follow-up sessions and monitoring of beneficiaries a year and more after the end of the intervention. This kind of handholding will be especially important for the poorest micro-entrepreneurs, for whom there will be many hazards finding their way out of poverty. Handholding sessions can be partly focused on how to face risks.
It is also necessary to generate more context-specific evidence on what skills are more useful for the poorest micro-entrepreneurs and what type of training could help non-poor employers hire more people, including unskilled, poor workers.

**Training programmes focused exclusively on women have greater chances of positive impact on female entrepreneurs** than programmes directed at men and women together (Annex Table B2; Calderon et al., 2013; Valdivia, 2011).

Business training can teach employers and potential employers (that is, medium and small business owners) human resource management skills, particularly the non-remunerative aspects of work that influence workers’ performance and productivity, including the time lag between effort and reward; perceptions of generous/unfair treatment; ideas about the value of one’s work; and the competitive nature of the work environment (World Bank, 2015). This is rarely included in such training at present, perhaps because most micro-businesses rarely employ people.

These factors will operate in specific ways for poor individuals, who are likely to face additional psychological, cognitive, social and material constraints that can affect their work performance. These can include self-esteem, social relations of powers with other employees (e.g. if belonging to different castes) and the cost opportunities of working harder or longer. Employers can learn to design contracts that provide incentives to increase the firm’s labour productivity, and learn how to assess whether to hire more workers. Expanding the potential of micro-businesses to employ, or take on apprentices, will be very helpful to the chronically poor who search for jobs and apprenticeships.

### 6.4 Microfinance and financial assistance to SMEs

**How can microfinance be of help to chronically poor entrepreneurs?**

Disbursement of loans and repayment work best for chronically poor and vulnerable agricultural households when they are coordinated with the pattern of cash flow associated with the farming cycle, which is characterised by seasonal fluctuations of income.

In order to incentivise the poor to use microloans for business purposes, and reduce the fear of ‘credit that kills’, it is also necessary to improve the ‘enabling environment’ and make their investments less risky.

**How can microfinance support poverty escapes through entrepreneurship?**

For the poorest people, cash grants may have better chances of promoting entrepreneurship than microcredit (see evidence in Annex Table B4). Cash and asset transfers, for instance, are at the core of BRAC’s Graduation Approach (see Box 32), the former to address pressing consumption needs and the latter to promote household livelihood opportunities. This is the closest existing approach to a design suited to the chronically poor.

Sustaining escapes from poverty through entrepreneurship requires an integrated approach – with the provision of financial services linked to BDS, especially business and technical training. Lessons from BRAC’s Graduation Approach, which aims at graduating people from very deep or extreme poverty, suggest it should come only after pressing consumption needs have been addressed and saving capacity improved (Box 32). If the target population is existing MSMEs closer to the poverty line, appropriate interventions may have to be more tailored to their specific needs and more focused on business activities than in BRAC’s Graduation Approach. Transfers of cash or assets may or may not be required; skill transfers and financial inclusion will be essential.

Informal SMEs with growth potential may benefit the most from interventions that help them formalise their status and then have access to the formal financial system, and from measures to increase the overall supply of credit. This type of enterprise will need loans provided on more flexible terms, and more tailored services to achieve an impact at scale. Taking too many (small)
loans from multiple sources is a high-risk financial strategy for small businesses, while very small loans available may not be sufficient for borrowers to invest constructively in their future. Group-based lending is therefore not appropriate for this category of informal enterprise, and more product and financial service innovation is necessary to provide financial services to MSMEs.

**Box 32: BRAC’s Graduation Approach – a strategy for the chronically poor**

The NGO BRAC first applied the Graduation Approach in 2002 in Bangladesh in the Challenging the Frontiers of Poverty Reduction/Targeting the Ultra Poor programme. In 2006-2014, the programme was tested at 10 sites in eight countries (Ethiopia, Ghana, Haiti, Honduras, India, Pakistan, Peru and Yemen). The aim is to help the extreme poor ‘graduate’ from extreme poverty through a combination of interventions in social protection, livelihoods development and financial inclusion.

The Graduation Approach is based on the following building blocks (that each programme adapts to the specificities of the local context):

- **Consumption support** (in the form of a small cash stipend or foodstuffs) that participants receive soon after joining: the aim is to free participants from the concern of everyday survival.
- **Savings**: once people’s food consumption stabilises, they are encouraged to start saving, either through self-help groups or more formally through an account with a formal financial services provider. Many programmes also offer financial literacy training.
- **Market analysis and asset transfer**: a few months after the programme starts, each participant receives an asset (e.g. livestock if the livelihood involves animal husbandry; inventory if the livelihood is retailing) to help jump-start one or more economic activities.
- **Technical skills training**: participants receive skills training on caring for an asset and running a business. The training also provides information on where to go for assistance and services (e.g. a veterinarian for those engaged in animal husbandry).
- **Life skills coaching**, to improve self-confidence and social capital: during weekly household visits, staff help participants with business planning and money management, along with social support and health and disease prevention services.

Early results from randomised control trial impact assessments show very promising results. For example, beneficiaries served by BRAC (Bangladesh), Bandhan (India), REST (Ethiopia) and four sites in Pakistan increased total annual household consumption by 11-36% compared with control groups. Assets, including savings and livestock, increased as well. Several pilot projects are also in the process of scaling up. For example, four pilots (one in Haiti, three in India) had already reached over 34,000 new participants by late 2013. Several governments, such as Colombia and Peru, are pursuing strategies to integrate components of the approach into their social protection programmes.

Source: de Montesquiou and Sheldon (2014).

6.5 Promoting the entrepreneurship of poor women

*What can be done to help women entrepreneurs running SMEs sustain their and others’ escape from poverty?*

Women need to be put at the core of pro-poor private sector development strategies, by enabling them to use self-employment as a route out of poverty and develop their entrepreneurial potential and capabilities. **Removing the constraints facing women in the private sector would increase productivity and growth while also making it easier for them to escape poverty.**

Women running SMEs are mostly non-poor or on a trajectory of poverty escape. Removing the specific barriers they face and helping them grow can positively impact on poverty by creating jobs and economic opportunities for poor(er) neighbours. Required interventions include:
• Investment in education and the introduction of short-term, out-of-school entrepreneurial courses for female adults, and the inclusion of entrepreneurial subjects in secondary schools and as courses at tertiary level;

• Easier business registration and taxation for women entrepreneurs through one-stop-shop and hotline services, the computerisation of business registration and the creation of brochures that explain legal procedures in simple terms;

• Improving outreach to rural women entrepreneurs, translating the most important laws regarding entrepreneurship, formalisation and women’s rights into common dialects and making these laws known in rural areas (Hampel-Milagrosa, 2011);

• Reform of land inheritance practices where these discriminate against women and a review of their actual implementation where they are supposedly gender-neutral; support for land transfers between men and women;

• Tailoring financial products and services to the characteristics of rural and women-led enterprises, including microbusiness activities such as small animals, providing farm labour or selling food. These activities usually generate small and short-term financial flows that are essential to the everyday subsistence of the family but are not perceived as contributing to the household’s finances. This leads to a substantial underestimation of a household’s income and borrowing capacity. Potential solutions include modifying existing credit methodologies to measure the entire family income and the growth potential of existing income-generating activities; allowing multiple loans to households; training staff to see women as valuable clients; and creating multiple loan products for different needs (see Box 33 for examples of good practices);

• Seek new roles for women beyond production, lest they end up being relegated to basic and non-influential roles in producer organisations. This involves, within a particular sector or enterprise, promoting women’s roles in functions and market segments where profitability is higher or where the role of women can help challenge traditional perceptions of women’s work – for example encouraging women to take charge of processing and manufacturing. An excellent model of how this can be achieved is provided by Oxfam’s Women’s Economic Leadership project in the Assosa Edible Oil Enterprise in Ethiopia (Box 34).

Box 33: Examples of good practices of MFI outreach to poor women

In Colombia, the Fundación de la Mujer used to serve the rural market primarily through the Fundacrédito Agropecuario product, a loan for any activity broadly defined as agricultural or raising livestock. Recently, it has developed a range of products, each with its own terms, to meet the various need of women: clients can have more than one loan, each designed with the size and repayment terms to fit the specific purpose of an income-generating activity. A loan is provided for each line of business. For instance, one product is designed specifically for women producing transformation products in the farm, turning fruit into jam or milk into cheese. It is available to clients even if their spouse has a loan, as long as it supports separate activities.

In Peru, Caja Arequipa has recently redesigned two of its products for farming activities: one for agricultural activities and one for raising livestock, targeted to both men and women. The most relevant changes were not in the features of the loan but in implementing a new way of analysing the loan amount and repayment terms by performing a cash flow projection for the duration of the loan. Further, to respond to the specific constraints met by women, a third product was developed, Súperate Mujer, to finance a range of activities with the amount ranging from PEN 1,000 to PEN 5,000 (US$350 to US$1700). The distinguishing feature is that women do not need their spouse as a co-signer or guarantor. This allows single, widowed or women who do not want to include their husband in the loan document to have easier access to a loan – without having to find another guarantor.

Governments can stimulate women’s entrepreneurial activity and a wider range of businesses by developing affirmative policies, procedures and programmes specifically for women-owned businesses and applying them to public procurement (see Box 34). Governments can use public procurement to promote socioeconomic objectives because in this they operate as both market regulators and market participants. They can promote specific enterprise categories by fostering demand for their products as well as altering the marketplace in which they operate. Women-owned businesses face specific challenges that need to be addressed to encourage their participation, but other ‘vulnerable’ enterprises, such as enterprises led by poor, young or disabled people, share these. Any reforms addressing these challenges thus may have collateral benefits for other businesses too.

The businesses benefitting from such policy change are likely to be small and formalising businesses, since these are the ones governments are likely to be able to buy from. In terms of poverty dynamics, this is helping women stay out of poverty, grow their business and potentially expand employment.

Box 34: Promoting women entrepreneurship through public procurement

Women-owned businesses face many challenges in engaging in public procurement, including lack of information about tender opportunities, overly complex and burdensome procedures, unreasonable technical and financial qualification requirements, large contract sizes, insufficient time to assemble tenders, price competition, lack of feedback from procuring agencies and delayed payment.

Governments can set up web portals to publish all public solicitations or tenders, to help women-owned businesses access opportunities. The Indian Government Tenders Information System, an interactive database for central and state governments and other public bodies, allows users to search and sort tenders by location, agency, description and value, and to download documentation.

To reach rural and other contexts with limited internet access, information can be given directly to women’s business organisations and other associations that support women entrepreneurs. A survey of women-owned businesses in Indonesia showed a positive correlation between business association membership and ability to win government contracts (Novirianti, 2013). Trade support institutions and women’s business associations can also build capacity to help women entrepreneurs compete in public procurement markets and bids and adequately provide goods and services.

Women-owned businesses should prequalify for groups of contracts or certain categories of goods, works and services. Teaming can make opportunities more accessible. Rules on prompt payment at prime and subcontract levels should be implemented and enforced, with procuring entities and government officials held accountable for this. In South Africa, the National Small Business Chamber is encouraging large businesses and government to commit voluntarily to a Prompt Payment Code.

Business champions should be put in place in government procurement authority offices and procuring entities to advocate on behalf of women business owners. In Uganda, women advocates were positioned at the border to help women vendors complete the required documentation and facilitate their interactions with customs and border officials. As a result, officials changed their attitude towards women vendors and stopped creating obstacles to their cross-border transactions.


What can be done to support the businesses of chronically poor women?

Even chronically poor women engaged in subsistence activities can benefit from microenterprise start-up assistance. The most appropriate intervention for this type of woman is a capital (cash or asset) transfer combined with some form of training or assistance.

There is some evidence that cash grants are more appropriate for women already running a microbusiness, while assets – such as livestock – transfers are better for women with no previous
business experience. The poorest, most capital- and credit-constrained women benefit the most from these interventions because they would not have access to any alternative source of capital.

Evidence from Uganda (see Box 21) shows unconditional capital (cash or asset) transfers can be a very cost-effective way to provide livelihood support to the poorest women. There is also room to explore whether increasing the size of the grant or providing a second grant in a second phase can have even greater economic impact on women’s businesses and be a driver of escapes from poverty.

Programmes employing integrated approaches targeting the poorest women appear to trigger positive economic transformations, through direct and indirect effects (see evidence in Bandiera et al., 2012a; Banerjee et al., 2011; Morduch et al., 2012).

However, more evidence assessing the cost-effectiveness of the single interventions is needed, in particular evaluating the increased returns from follow-up components.

- Even successful economic empowerment may not translate directly into social transformation; having an impact on social and psychological spheres of life requires additional, different and longer-term types of interventions (see evidence from Uganda in Blattman et al., 2013). This confirms a multi-pronged integrated approach is required to deal with the different aspects of poverty.
- The fact that even the poorest women can benefit from livelihood and business promotion programmes – in the sense that these programmes can help them achieve an income just above the poverty line – does not exclude the possibility that they may be better off in reasonably paid wage labour (Kabeer, 2012). In the absence of strong evidence suggesting what option is preferable in each context, policy and programmes should aim to remove the different types of constraints women face (in terms of access to education and financial services, the regulatory environment and social norms) so they are in the position to choose their favoured option (wage labour or self-employment), at least as much as men are.
- Promoting women’s entrepreneurship may also mean support to men-owned enterprises, as long as the role of women in these enterprises is enhanced. This holds for all categories of poor and near-poor businesses and would help all poverty dynamics.

While interventions targeted exclusively to women seem to have a greater impact on women, the involvement of men is essential and can lead to longer-lasting results (see Blattman et al., 2013). At the national policy level, this can be promoted through state-led campaigns for equality of men and women with regard to both work and housework.

**Box 35: Women’s economic leadership in the Assosa Edible Oil Enterprise, Ethiopia**

Oxfam’s Women’s Economic Leadership project in the Assosa Edible Oil Enterprise is part of the Enterprise Development Programme (EDP). The EDP aims to locate the best economic opportunities for women at household, farm and market level, specifically identifying key stakeholders, barriers and options for promoting new or improved roles for women. It invests in women-friendly enterprises, including those run and owned by men, because of the limited number of agricultural enterprises in rural areas owned and run by women and because women’s contribution is often not very visible. For example, the EDP has encountered difficulties finding enough women with sufficient skills, confidence and time to take up more senior positions in the businesses employing them.

The Assosa Farmers is a union of 23 cooperatives; 20% of its 6,375 members are women. The EDP supported it to establish a local edible oil factory, with the aim of adding value to oilseed production and generating profits as well as improving the position of women working in the cooperatives.

A mapping of the oilseed market identified the following social and economic constraints for women: many women were illiterate and had heavy household duties; few women owned assets, such as land.
or tools; institutional support was lacking (e.g. access to credit, land rights for women); and women lacked ability to influence decision-making at community and cooperative levels.

Key actions to tackle these constraints and foster women’s economic leadership included:

- Supporting women to be the exclusive marketing agents of edible oil in local markets;
- Negotiation of credit for women’s activities, through advocacy with banks and credit unions;
- Business skills training and mentoring;
- Raising awareness and understanding about gender equality with men and women producers;
- Influencing local government officials and agricultural extension officers to challenge and reform laws regarding access to land for women.

Women’s trading groups now control local market distribution of the factory’s edible oils, organised under each cooperative of the union. The groups have helped members take on leadership roles in the union and created more favourable conditions for new women entrants (e.g. double rather than single membership per household (the latter tends to exclude women), low joining fees, long-term payment schedules). Women also have increased access to and control over household income.

Source: King et al. (2012).

6.6 Achieving pro-poor and pro-poorest value chains

Incorporation in value chains and upgrading can be important drivers of escapes from poverty, provided poor participants own key productive assets and have access to sources of natural capital as well as social capital and financial capital (Seville et al., 2011).

Value chain interventions that can help tackle chronic poverty are those that provide the poor with different types of assets and capital. These include asset enhancement or asset transfer, as well as support to livelihoods beyond the value chain; investments in infrastructure and improvements to existing transport services, especially in remote areas; and skills enhancement of participants.

Economic upgrading of participants in the value chain can be pursued through different types of strategies (see Table 3 and Box 37 describing various types of upgrading in reference to the basket value chain in rural Cambodia). However, the poorest may face obstacles in implementing these strategies and may need specific support to overcome these obstacles or to be encouraged to stay in or ‘downgrade’ to businesses they can manage.

Table 3: Different types of upgrading strategies

<table>
<thead>
<tr>
<th>Type of upgrading strategy</th>
<th>What it means</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product upgrading</td>
<td>Improving product quality – often accompanied by process upgrading.</td>
</tr>
<tr>
<td>Process upgrading</td>
<td>Improving chain efficiency through improvement of processes within or between nodes.</td>
</tr>
<tr>
<td>Functional upgrading</td>
<td>Changing the mix of functions performed.</td>
</tr>
<tr>
<td>Horizontal coordination</td>
<td>Development of relationships among actors within functional nodes of the chain. Aim is facilitate access to markets, pool resources to generate economies of scale and reduce transaction costs.</td>
</tr>
<tr>
<td>Vertical coordination</td>
<td>Developing relationships among actors between nodes. A common example is contract farming or out-grower schemes: contractual partnerships between growers or landholders and a company for the production of a given crop/product. They vary in terms of the extent to which input, costs, risks and benefits are shared between the two parties; contracts can be with individuals or group of farmers.</td>
</tr>
<tr>
<td>Chain upgrading</td>
<td>Use skills gained in one value chain to participate in another.</td>
</tr>
</tbody>
</table>

Source: Adapted from Mitchell and Coles (2011) and Mitchell et al. (2009).
Which upgrading strategies are more appropriate to tackle chronic poverty?

**Process and product upgrading** can benefit the poorest producers, if the value chain intervention ensures necessary assets and skills are provided to the poorest participants. This can imply asset enhancement or asset transfer, as well as support to livelihoods beyond the value chain; investment in infrastructure and improvement to existing transport services, especially in remote areas; and skills enhancement of participants.

**Horizontal coordination** is particularly useful in helping individual producers who struggle to overcome quality requirements, especially in rural areas where people have few financial resources to access viable value chains. It should focus on functions that are harder for individuals to carry out or for which the individual faces higher barriers than the group; functions for which collective action generates the wrong incentives should be left to individual agency. It is more effective when functional groups with effective leadership exist and traditional group structures are employed.

**Product and process upgrading through organic or Fairtrade certification** may not be the best option for the poorest because of their high volatility, risks and considerable barriers to entry (Goger et al., 2014). Evidence of their impact so far is mixed, especially in terms of the ability to influence improvements of labour conditions (Lyon and Moberg, 2010). There is even evidence that the poorest wage labourers employed in Fairtrade coffee, tea and flower plantations in Ethiopia and Uganda experienced lower wages and worse working conditions than workers in sites without Fairtrade-certified producers (Cramer et al., 2014). A major policy implication for Fairtrade certification as an upgrade strategy for the poor is that it must be accompanied by an assessment of the most vulnerable categories likely to be involved in the certified product’s value chain (e.g. women wage workers, direct producers, processors). All the certified standards must be implemented and verified for all these vulnerable categories, with particular attention to women and migrant workers.

**Box 36: Fairtrade impact on poverty in Ethiopia and Uganda**

According to recent research, Fairtrade-certified coffee, tea and flowers do not improve lives of the very poorest rural people in Ethiopia and Uganda. A study investigated wages and working conditions in 12 areas growing coffee, tea and flowers for export, including areas producing under Fairtrade certification. It found agricultural workers had a lower standard of living than the rest of the population, and wage workers in research sites defined around Fairtrade-certified producer organisations experienced lower wages than in sites without Fairtrade-certified producers. This was particularly the case for women’s wages. This was not because the Fairtrade-certified cooperatives were in more marginalised, deprived areas, and the finding held true even after the effects of scale and other differences across workers and sites were taken into account in detailed statistical analysis.

In some areas dominated by Fairtrade-certified cooperatives, workers interviewed did appear to have greater access to some fringe benefits (e.g. free meals in two sites; on other sites more access to loans) than workers in areas without Fairtrade certification. Even here, though, other aspects of work conditions were often worse. There was also evidence that workers on Fairtrade sites had no access to community facilities such as schools, health clinics and improved sanitation, which were used by wealthier members of the community.

The research provides a number of recommendations for Fairtrade organisations that want to make sure ethical trading does make a major contribution to improving the lives of very poor rural people:

- Fairtrade standards and audit procedures must be redesigned to include compliance with specific standards for the remuneration of manual agricultural wage workers, not only on processing stations (e.g. in coffee and tea) but also on the farms that employ such workers.
- These standards should ensure average wage rates among such workers are at least as good as, if not higher than, those of very similar workers employed in the production of the same crops in non-Fairtrade institutional conditions.
• Standards should also seek to secure at least as good, if not better, non-wage working conditions and facilities.
• Preference in awarding certification should be given to those producer groups who can demonstrate they provide crèches for the care of very young, preschool-age children of working mothers.
• Fairtrade standards should seek proactively to support and protect independent and effective trade unions serving the interests of wage workers in agriculture and in particular in the production of export crops.
• Fairtrade organisations should invest far greater resources in effective, regular and proper independent monitoring to ensure producers meet the standards to which they have signed up in order to access international markets.

Source: Cramer et al. (2014).

Which upgrading strategies are more likely to sustain escapes from poverty?

Functional and chain upgrading are the upgrade strategies with the largest potential to have spill-over effects in terms of pro-poor private sector development. When they work, producers and labourers use the skills, improved production and market access acquired in one value chain to access other (local, regional and global) markets (Seville et al., 2011, and see Box 37 on the basket value chain in Cambodia). This can be an important trigger of escape from poverty. They may be more appropriate for people close to the poverty line and with pre-existing skills than for the poorest producers, because there can be significant entry barriers to functional upgrading in disadvantaged rural areas, especially for the most profitable functions.

Box 37: Inclusion of poor people in the basket value chain in Cambodia and upgrading strategies

In the village of Puok, in the Angkor Thom district in Cambodia, many poor and non-poor households complement their income by weaving and selling baskets. The activity developed initially following the initiative of an NGO, who trained many poor women in making baskets to be sold to recommended buyers. One household was selected as meeting point, training place and warehouse. After a few years, this household started to work for a Thai businessman interested in buying handicrafts produced in the village.

The husband now performs various tasks for the Thai trader, such as providing part of the material to the producers (plastic straws in particular, which are used to reduce the amount of the more expensive lapeak used to make baskets and also to produce baskets with a trade mark – the colourful plastic straw and a specific design- which is exclusive to the basket produced for the Thai man); mobilizing producers for information update and gathering the products when they are ready to be collected (product upgrading). Ha was initially paid on commission every time he gathered the handicraft products from local producer according to the demand, but started receiving a salary as his responsibilities increased (social upgrading). Recently, the Thai businessman purchased a few plots of land in the village with the purpose of building small bungalows for tourists, and develop a few income-earning activities for the local people linked to the tourists presence, such as cooking activities and nearby excursions (chain upgrading).

The Thai businessman has many activities in Cambodia, especially in Siem Reap. His businesses include cosmetic products, guesthouses, and exporting handicraft products to other countries in Europe markets. Selling to him, the village producers become the first node of an international value chain and get access to a significant additional source of income. Yet, for the greatest majority of families, producing baskets has not become the main household business; it is in fact the residual activity that they perform when free from farming. This has often caused a mismatch between supply
and demand, with the baskets not being ready at the time orders had to be met. As a consequence, the Thai businessman is now adopting a ‘supply-driven’ model, which is however less profitable.

The presence of the Thai businessman in the village of Kandor has triggered a process of beneficial incorporation in the basket value chain, also generating different upgrading strategies. There are however limitations to the impact that this can have on poverty in the area. The main limitation is that the survival of the model entirely depends on the Thai’s man willingness to keep the activities going without making much profit. There is no guarantee that the level of demand for baskets will stay the same in the future. This can also explain why households keep giving preference to farming, even if less profitable. This example underscores the importance of providing structured, integrated value chain interventions, and also of supporting single instances of value chain integration.

**Value chain interventions that create business and producer associations that are inclusive can also contribute to poverty escapes.** Business associations can promote the collective representation of interests of poor producers; foster the adoption of innovations disseminating knowledge on new technologies and create linkages between domestic firms. However, group membership can create barriers to entry and be exclusionary of the poorest and most marginalised groups (Mitchell and Coles, 2011; see Box 38). Value chain interventions with a strong group component should be encouraged but also subject to careful design.

**Box 38: Challenges to including the poor in business associations**

Private sector organisations in developing countries are not always well organised, accountable and capable at all levels of the economy and poor producers are underrepresented.

MSMEs are often discouraged from joining by high fees; when they do join, their specific interests may carry limited weight. There is also a shortage of associations that represent the diverse issues of specific sub-sectors or product groups; even when they exist, they lack capacity and resources to effectively voice the opinions and concerns of their constituency. The same problem faces the many formal and informal associations in both rural and urban areas at the grassroots level. These are often organised around a certain trade in a particular location, such as informal associations of local fruit vendors, farmer organisations or savings and credit groups (OECD, 2006). Grassroots organisations often lack linkages to apex organisations such as chambers of commerce at the regional or central level, which could take care of their interests in national-level dialogue processes.

Some of these problems could be addressed by value chain interventions with built-in actions to create business associations.

**Vertical coordination** can support escapes from poverty because sustained, longer-term contractual relationships can reduce risks for the poor and create conditions favourable for investment in productive activities, household assets and services such as health and education. Diversification of marketing options can reduce household and community vulnerability. However, participants are often somewhat better off to start with – only those able to guarantee certain quality standards or timely delivery participate. This tends to exclude the poorest. To have better chances of including the poor in a contract scheme, it is useful to use social rather than physical collateral to maximise participation of the poorest. Inclusion of poor people is also enhanced when the crops with the following characteristics are chosen to be produced under contract: familiar crops that do not require new training practices; low asset specificity so farmers are able to redirect resources if they find the contract terms unsatisfactory; crops with a ready alternative market-comparable value to minimise risk of monopsony and exploitation; and crops with multiple seed sources to further constrain buyer power (Mitchell et al., 2009).
**Are there alternatives to upgrading strategies?**

For people who face particularly high barriers to inclusion in upgrading strategies, downgrading (that is, supplying lower-quality products) and inclusion as wage labourers may constitute valid alternatives, and can offer opportunities for social upgrading. They can help tackle chronic poverty and in certain circumstances also offer opportunities for sustained escapes from poverty.

For example, for smallholder producers unable to meet the high-quality standards imposed by Western buyers, downgrading may be a better strategy. This is the case for smallholders operating in the horticulture value chain serving supermarkets in Africa, who preferred to downgrade from supplying fresh fruits and vegetables to European supermarkets (with high standards) to supplying lower-value and less demanding domestic and regional supermarkets or working for those who continue to supply the highest-value markets. In this sense, the expansion of regional value chains can be seen as an opportunity for small producers to gain access to global chains in the long run by taking incremental upgrading steps as they move from local to more global participation (Goger et al., 2014; Mitchell and Coles, 2011). It may also be a more reliable pro-poor private sector development strategy.

However, **specific actions on the side of governments, donors and private actors are necessary to ensure downgrading and inclusion as wage labourers happen in a pro-poor way**, for instance ensuring labour standards are not lowered and, as a consequence, incorporation in value chain does not lead to impoverishment.

Key actions include promoting worker unionisation and organisation among farmers and worker groups so as to enhance their bargaining position. To avoid an acceleration towards outsourcing to countries with cheaper labour, and a ‘race to the bottom’ among neighbouring countries, labour standards need to be improved at a regional level. At the country level, there is scope to invest in labour inspectorates, which are still lacking in many developing countries. This involves providing inspectorates with sufficient staff, properly paid, and with vehicles and the wherewithal to monitor labour practices effectively. Governments should commit to promoting and enforcing social clauses in bilateral and multilateral agreements.

**Private companies** can also do a lot. They can commit to adapting trading relationships within the value chain, for example promoting supply chain coordination, effective market linkages, fair and transparent governance, sharing of costs and risks and equitable access to services (Seville et al., 2011). Examples are changes in the relationship between buyers and suppliers, with prices negotiated to take into account the payment of living wages to workers and living incomes to smallholders (Goger et al., 2014). Where there are agreed labour standards, as in the case of ethical trading or Fairtrade, casual labourers should be included in those rather than ‘swept under the carpet’.

**Box 39: Downgrading as a strategy in the Senegalese green bean value chain**

In Senegal, the tightening of quality standards on the production of green beans induced by demand from EU supermarkets contributed to poverty reduction by creating employment opportunities that were more accessible to the poorest households. The tightening of standards induced structural changes in the supply chain, including a shift from smallholder contract farming to large-scale integrated estate production. While only households with larger landholdings were able to participate in the contract farming schemes, poorer producers and landless households were able to participate as wage labourers and gain significant benefits as compared with non-participants (Maartens and Swinnen, 2006).
6.7 PPPs, inclusive businesses and the bottom of the pyramid approach

**What role should PPPs play in a pro-poor private sector development strategy?**

PPPs should be an important part of a pro-poor private sector development strategy, but more research is needed to identify what types of partnerships are more likely to benefit the poor. In particular, more evidence is needed to design challenge funds that can trigger pro-poor systemic change.

**Under what conditions can inclusive businesses and BoP enterprises lead to pro-poor private sector development?**

The BoP business model, and more generally inclusive businesses, can lead to pro-poor outcomes if they trigger behavioural changes on the side of the poor (in the sense that they consume cheaper goods that increase their wellbeing) and on the side of corporations. These pro-poor outcomes cannot be taken for granted, however; they need to be explicitly designed into the business model/process, and to be compared with the possible negative effects on poverty. The case of Rent-to-Own (Box 40) offers an example of how this can be done.

**Box 40: Designing pro-poor business models – the case of Rent-to-Own**

A good example of appropriate upfront design is Rent-to-Own, a company in the IAP portfolio supplying productive assets, such as irrigation pumps, to small-scale farmers. Purchasers of irrigation pumps typically do not start generating an income from the pumps until a number of months later. It is difficult for those customers to make repayments in those months, but they have the capacity to make larger repayments during busy months. Rent-to-Own analysed the seasonal cash flow streams of its customers and started offering repayment schedules matched to its customers’ erratic income streams, rather than expecting a single, constant repayment stream.

Source: Sida (2013).

Inclusive business initiatives need to be carefully monitored and their impact and degree of ‘inclusivity’ assessed. An ex-ante causal chain analysis to determine how the outputs of a business model are intended to link to desired outcomes is needed; this should capture all outputs and outcomes (or as many as possible) of the proposed business model, both positive and negative; and determine and make clear who makes the judgement as to what is ‘inclusive’.

To be a strategy of pro-poor private sector development, inclusive businesses need to stimulate domestic markets. This is more likely to happen if domestic firms are involved directly at least through the creation of indirect linkages. One reason for this is domestic firms would be more willing to make longer-term investments and to persevere even if the model needs time to become profitable.

As the BIF has started to demonstrate (see Box 25) technical assistance and business advice may be as important as financial support to help inclusive businesses grow and prosper. This suggests promoting the growth of a domestic inclusive business sector may require the integration of different types of initiatives, such as training, BDS and financial services.

**What impact are inclusive businesses and BoP enterprises likely to have on different poverty dynamics?**

There is still limited evidence on what types of business models and partnerships approach are more likely to achieve larger-scale and more systemic development results for poor people. For the BoP approach, the existing evidence suggests the impact on tackling chronic poverty is going to be limited because of the extremely limited purchasing power of extremely poor people. However, those closer to the poverty line, who are already on a trajectory out of poverty, may enjoy benefits from involvement in BoP initiatives as both producers and consumers.
However, care needs to be put in involving the most vulnerable categories in BoP initiatives, as this may also result in their impoverishment. For example, involvement of poor women in inclusive businesses, as both consumers and sellers/retailers, can generate great benefits for them but also have considerable negative side-effects. Analysis of the causal chain must also assess the possible negative effects on women, and the business model and products must be corrected to offset these.
References


http://www.womeneconroadmap.org/


UNIDO (UN Industrial Development Organization) and UNU (UN University) MERIT (Maastricht Economic and Social Research Institute on Innovation and Technology) (2012) Structural Change, Poverty Reduction and Industrial Policy in the BRICS. Vienna: UNIDO.


Annex A: Enabling the Private Sector – Key Measures for the Poorest, Based on Evidence from Systematic and Systematic-style Reviews

<table>
<thead>
<tr>
<th>Enabling environment: aspect</th>
<th>Plausible impact on poverty dynamics</th>
<th>Evidence</th>
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<tbody>
<tr>
<td><strong>International level</strong></td>
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<tr>
<td>Allow countries fiscal and policy space to develop productive capacities (UNCTAD) as well as macroeconomic stability</td>
<td>Structural transformation likely to provide opportunities for upward progression for people escaping poverty. Chronic poor also need strong investment in and support for (smallholder) agriculture. Preventing impoverishment partly about international measures to compensate for economic vulnerability, manage conflict.</td>
<td>Widespread evidence and acceptance that agriculture needs investment and support. Divergence on what sort (inputs vs. markets; sustainable agriculture vs. green revolution; irrigation and soil water content) and on targeting richer/poorer farm households (CPAN, 2012). At the international level, being able to process and export agricultural products into competitive markets; also protection from international price volatility for imported food products for food security.</td>
</tr>
<tr>
<td>Trade agreements</td>
<td>Support growth</td>
<td>Trade preferences can be used favourably to support developing countries in creating and promoting exports (Elliott, 2010).</td>
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<tr>
<td>Addressing monopsonistic practices in international supply chains that may affect the ability of developing country producers to reap gains from participation in international markets (Anderson and Müller, 2013; WTO)</td>
<td>Some evidence that the poorest producers find it difficult to stay in agricultural GVCs, and tend to become workers on others’ farms, and focus own production on local/less demanding markets (e.g. Swinnen and Maertens, 2007). Greater international competition would have indirect growth effects.</td>
<td>International cartels, generally in intermediate goods, raise the costs of developing country exporters. Also able to charge higher prices in territories with no or ineffective competition framework. However, links through to poverty dynamics are hard to establish.</td>
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<tr>
<td><strong>National level</strong></td>
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<tr>
<td>Industrial policy</td>
<td>Via impact on growth, diversification and vulnerability reduction effects. Should reduce impoverishment. Potentially direct effect if focused on employment generation.</td>
<td>Industrial policy can accelerate structural transformation (Ethiopia, Tunisia, Vietnam) but can also fail in lower- and lower-middle-income countries (Altenburg, 2011). Can it be pro-poor? DCED: Disagreements over the main aim of industrial policy reflect the range of views on how</td>
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<tr>
<td>Enabling environment: aspect</td>
<td>Plausible impact on poverty dynamics</td>
<td>Evidence</td>
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<td>likely the poor are to benefit from economic growth in general. Altenburg (2011) cites evidence that growth is not inevitably good for the poor and argues in favour of ‘inclusive industrial policies’. He defines these as policies that aim to promote ‘structural change in a way as to enhance competitiveness and productivity growth while increasing the incomes of the poor more than proportionally’. Such policies may involve safeguards for vulnerable groups, a focus on labour-intensive industries or the strengthening of linkages between SMEs and larger firms. Others argue industrialisation and labour-intensive manufacturing may offer great economic opportunities for the poor in the medium to long term, but that it is critical to complement industrial policies with measures to improve incomes for poor workers in the short term – in particular through support to agricultural productivity and rural household enterprises (e.g. Fox et al., 2013; Page and Shimeles, 2013).</td>
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<tr>
<td>Commercial policy/law: competition law and enforcement</td>
<td>Indirect via growth, e.g. a competitive financial sector delivers more credit to SMEs. Direct.</td>
<td>DFID (2013) review: does not find many effects on poverty or employment, but good effects of competition in product markets for growth. Financial liberalisation has more limited effects. Slow liberalisation is best; keep protections of national in place while adjustments are made.</td>
</tr>
<tr>
<td>Contract law and enforcement</td>
<td>Might support sustained escapes from poverty and prevent impoverishment through sub-contract stabilisation for informal firms?</td>
<td>Weakly evidenced links to growth – two systematic reviews – Aboala et al. (2014) and Trebilcock and Leng (2006) – argue that at low levels of economic development informal contracts are generally enough, but they become an obstacle at higher levels of development.</td>
</tr>
<tr>
<td>Property law, land tenure reform, especially land titling</td>
<td>CPR3 analysis: land a critical ingredient for sustained escapes. Loss of land for impoverishment. Attract FDI but make sure it is not land grabbing.</td>
<td>Meinzen-Dick (2009): while legislation may provide more secure land tenure for the poor and thus reduce poverty, this is not guaranteed. Policies that do not recognise the complexity of property rights have backfired, reducing poor people’s security of tenure. Finally, understanding legal pluralism can lead to more effective policies and interventions to strengthen poor people’s control over assets. Mooya and Cloete (2008) – on urban land tenure – many have argued that the poor in most cases already have secure de facto tenure and that tenure security is often not their main priority. Similarly, many studies have shown that the demand for formal credit by the poor for purposes other than consumption is low.</td>
</tr>
<tr>
<td>Enabling environment: aspect</td>
<td>Plausible impact on poverty dynamics</td>
<td>Evidence</td>
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<td>Labour market policies, especially minimum wages; protection of women</td>
<td>Minimum wages, if/where implemented, would help raise the lowest wages – direct and indirect effects. Likely to help chronic poor (indirectly), and reduce impoverishment.</td>
<td>Nataraj et al. (2011) systematic review: despite the small number of high-quality empirical studies that met the inclusion criteria, we can conclude that the evidence for low-income countries (and recent low-income countries) points to there being a negative effect of regulations on formal employment and a compensating positive effect on informal employment. The effect on overall employment rates, and on unemployment, is ambiguous. The effect of labour regulations by gender is also ambiguous.</td>
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<tr>
<td>Corruption</td>
<td>Lots of evidence that the poor pay more in corruption. Would stand to reason that corruption hinders sustained escapes from poverty; is likely to contribute to preventing chronically poor escaping poverty in the first place; and may contribute to impoverishment.</td>
<td>Corruption is typically a symptom of institutional weakness rather than a primary cause of underdevelopment. Anti-corruption policies require institutional capacity to be implemented. Hanna et al. (2011) systematic review: public sector corruption is a key barrier to effective service delivery and an impediment to economic growth and development. This report provides findings from a systematic review on the effectiveness of micro-level anti-corruption strategies implemented in developing countries. It focuses on the distinction between interventions that utilised monitoring and incentives mechanisms and interventions that changed the underlying rules of the system. Produces convincing evidence that monitoring and incentive-based interventions (both financial and non-financial) have the potential to reduce corruption, at least in the short term. Finds more limited evidence that decentralisation, a strategy that changes the rules, has the potential to reduce corruption in certain settings. Strategies that change the rules are thought to be more sustainable in the long term, but additional research is needed to better understand the long-term effects of this and monitoring and incentives interventions.</td>
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<tr>
<td>Harassment</td>
<td>Forcing small informal businesses to move, close or invest beyond their means is likely to impoverish the owners and reduce employment, at least temporarily.</td>
<td>No synthetic research; lots of case studies indicating the effects of harassment. Little evidence found so far of initiatives to reduce harassment.</td>
</tr>
</tbody>
</table>
Annex B: Evidence of Impact of Different Interventions to create Capabilities and Opportunities

Table B1: Evidence of impact of vocational training and other labour market interventions

<table>
<thead>
<tr>
<th>Study</th>
<th>Description</th>
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<tbody>
<tr>
<td>Government-subsidised training for low-income youth in urban areas of Dominican Republic</td>
<td>The goal was to raise participants’ job skills and match them to suitable employers, targeting men and women aged 16-29 currently not working or studying and willing to work. It combined classroom training with an internship period, and put emphasis on the private sector as provider of training as well as demander of trainees. An experimental impact evaluation found the programme improved hourly wages by 7-10% but no significant impact on employment rates of trainees or on their hours of work. The effects were similar for men and women (Card et al., 2011).</td>
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<td>Jóvenes en Acción provided three months of classroom training and three months of unpaid on-the-job training to young people aged 18-25 from the lowest decile of the income distribution. Various private institutions provided training on a diverse set of vocational skills. A randomised experiment among participants showed the programme had stronger effects on female than male participants, raising the probability of women participants being in paid employment by 11% and their average wage earnings by 18% (Attanasio et al., 2011).</td>
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<tr>
<td>BRAC’s Empowerment and Livelihood for Adolescents programme in Uganda</td>
<td>The programme provides young girls 14-20 two types of training, on life skills (sexual and reproductive health, HIV/AIDS awareness, family planning) and livelihood skills for income-generating activities such as hairdressing, tailoring, computing, agriculture, poultry-rearing and small trade. A distinguishing feature is that training was preceded by the formation of ‘clubs’ of beneficiary girls in each village, so emphasising the collective dimension of the experience. After the training, girls are offered credit through BRAC’s microfinance programme. A randomised experimental study found that, after two years, girls who received the two trainings had 35% higher labour force participation, owing primarily to an increase in self-employment activities (they were more than 76% more likely to be in self-employment and spent 46% more hours working in self-employment). Their earnings from self-employment were also higher and they had 42% higher personal monthly expenditures across eight goods that are popular among young adolescent girls in Uganda (Bandiera et al., 2012b).</td>
</tr>
<tr>
<td>Vocational training for poor women in India</td>
<td>Women from low-income households taking part in a vocational training programme (stitching and tailoring) in India, six months after the end of the training, were found to be six percentage points more likely to be employed, to be four percentage points more likely to be self-employed, to work 2.5 additional hours per week and to earn 150% more per month than women in the control group. These treatment effects were found to persist 18 months after the intervention (Maitra and Mani, 2014).</td>
</tr>
<tr>
<td>Vocational and technical education for youth in Kenya</td>
<td>A project started in 2008 in western Kenya assigned a voucher to a randomly selected sample of youth aged 18-30. The restricted voucher, worth around $460, could be used to enrol in a public institution; the unrestricted voucher could be used to enrol in either a private or a public institution. Preliminary results indicated that, compared with a control group, voucher beneficiaries were much more likely to enrol in vocational training than non-winners (74% vs. 4%), indicating that the cost of training is an important factor in individual enrolment decisions. However, participants often noted other costs, such as transport, and other constraints, such as pregnancy and child care, as impediments to enrolling in vocational training. Participants were also found to be overly optimistic about the returns to vocational training and misled about which trades had the largest returns. Individuals with unrestricted vouchers completed 12 percentage points more coursework than individuals with restricted vouchers, most likely because of the better individual–institution matches that result from the wider range of institution choice and the high quality of private institutions. Thus, voucher programmes can be effective in increasing educational attainment in youth and unrestricted vouchers lead to better matches between individuals and institutions (Hicks et al., 2012).</td>
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</table>
Systematic review of TVET interventions in low- and middle-income countries

A systematic review examined 26 studies assessing the effectiveness of 20 different TVET interventions from various countries in Latin America, the Caribbean, Europe, East Asia, South Asia and Sub-Saharan Africa on employment outcomes for young people aged 15-24. Overall, the interventions were found to demonstrate a small, positive effect on employment, formal employment and monthly earnings. Furthermore, TVET appeared to increase the number of hours worked in paid employment by young women but not young men (Tripney et al., 2013).

Table B2: Evidence of impact of business and management training

<table>
<thead>
<tr>
<th>All categories: MSMEs, formal and informal</th>
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<tbody>
<tr>
<td>In India, four months of intensive consulting on management practices to randomly chosen medium-sized textile producers led to increased adoption of the recommended practices of 38% (compared with 12% for control firms). After one year, employment of these practices had dropped by only 3%. These improvements in management practices led to improvements in productivity of 17% within the first year, owing to improved quality and efficiency and reduced inventory (Bloom et al., 2012).</td>
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<td>In Puebla, Mexico, 150 MSMEs that received management consulting services (meeting with a consultant once a week for four hours over a one-year period) recorded a 13% increase in marketing efforts and a 7% increase in keeping formal accounts. They also increased monthly sales by 80% and productivity and profits by 120% compared with the control group (Bruhn et al., 2012).</td>
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<td>A three-week management training course for 167 entrepreneurs managing garage mechanics and metalwork enterprises in Kumasi, Ghana, led to an increase in the percentage of firms keeping and analysing records by 36% and 44% in the treatment group, as opposed to only 6% and 3% in the control group. Still, over one-third of the firms trained did not adopt the recommended practices. This seems to owe to large variations in both personal aptitudes and education levels and workers' abilities and motivation. While there were decreases in sales and gross profits for the whole cluster, they were slightly smaller for the treatment group (by 7% and 3%). Moreover, participation increased the probability of firm survival by 8% or 9%. Using a smaller sample of 113 businesses (excluding entrepreneurs who had previously received training and MSMEs evicted from their premises), the authors also find a statistically significant effect on gross profit (Mano et al., 2012).</td>
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<td>Business literacy training for young entrepreneurs in Bosnia and Herzegovina led the treatment group to be, in the year following training, 16.5% more likely to have implemented new production processes than control group entrepreneurs (Bruhn and Zia, 2011).</td>
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<tr>
<th>For micro and small informal enterprises</th>
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<tr>
<td>Effectiveness of training varies by gender. Evidence suggests that in certain contexts additional constraints operate that prevent women from benefiting from business training.</td>
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<tr>
<td>A business training programmes for microfinance clients – who are also micro-entrepreneurs – of Promotion of Rural Initiative and Development Enterprises (PRIDE) in Tanzania led to an increase in profits for clients by 20-30% overall (owing to an increase in sales), but had no significant effect on female clients (Berge et al., 2011).</td>
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<tr>
<td>Similarly, business training to poor microfinance clients in Pakistan led to increased business knowledge, better business practices and improvements in several other outcomes at the household level. However, the positive effects were concentrated among men; women increased their business knowledge but showed no improvements in other outcomes (Giné and Mansuri, 2011).</td>
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<tr>
<td>In Uganda, the International Labour Organization (ILO) Start-and-Improve Your Business (SIYB) programme was implemented in collaboration with the MFI PRIDE and delivered four different types of interventions to groups of men and women: loans, loans combined with training, grants and grants</td>
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</tbody>
</table>
combined with training. Recipients were micro-entrepreneurs, mainly tailors or running hair salons and retail shops. No effect for women was found from any of the interventions. In particular, family pressure appeared to have significantly negative effects on business investment decisions: married women with family living nearby performed worse than those in the control group in a number of the interventions. Women without family nearby, married or not, initially benefited, but the positive impact disappeared nine months after the end of the programme. On the contrary, six and nine months after the interventions, men with access to loans with training reported 54% greater profits and this seemed to increase slightly over time. The loan-only intervention had some initial impact, but this had faded after nine months. Grants with or without training did not work. It seems the perspective of having to pay back the money leads to more effective use of funds. The results suggest highly motivated and skilled male-owned microenterprises can grow through finance, but the current finance model does not work for female-owned enterprises (Fiala, 2014).

**Training programmes targeting women only seem to deliver stronger results, although the size of the business also seems to influence the ability to benefit from the training.**

A business training programme in Lima, Peru, provided personal development, business management and productive skills to 1,416 female micro-entrepreneurs who had previously benefited through the titling of their urban parcel. Half of the selected women were also offered technical assistance. After four months, the trained women had made some adjustments in their business practices, although those who had also received technical assistance were more prone to plan and execute innovations, as well as to increase their association with business peers and use informal credit sources. Furthermore, such innovations led to an increase in sales of at least 18%. Women with relatively larger businesses were better able to catch the benefits in terms of business income and practices (Valdivia, 2011).

In the poor state of Zacatecas in Mexico, an NGO provided 48 hours of training, over six weeks, to 164 female rural entrepreneurs on topics such as measuring costs, setting prices, maximising profits, marketing and handling the legal issues that arise in a small business. The beneficiaries were found to earn higher profits, have larger revenues, serve a greater number of clients, be more likely to use formal accounting techniques and be more likely to be registered with the government than those not benefitting from the training. They were also more likely to use formal accounting techniques and know how profitable they are. Furthermore, the positive treatment effects persisted two and a half years after the training (Calderon et al., 2013).

**Helping beneficiaries network with their peers also enhances the impact of business training and the adoption of innovations.**

In Uganda, helping small farmers expand their social networks played a role in diffusing information about growing cotton. A field experiment tested two different methods for teaching growing techniques to female cotton farmers. In some villages, both male and female cotton farmers attended a standard training programme. In other villages, female farmers were offered training focused on social networking. Each woman was randomly assigned a partner she did not know before. They played games that gave rewards for remembering cotton-farming facts and received pictures of their partners and a reminder to talk to them throughout the season. The additional connection that each female farmer acquired through this training proved to be more valuable than what was offered during the standard training. For farmers who were not among the highest producers, yields increased by 98 kg per acre, an increase of over 60%, while the standard training increased it by 67 kg per acre (42%) (Vasilaky and Leonard, 2013).

**Combining business training with some form of capital transfer (especially cash grants) leads to the largest impact in terms of firms’ behaviour and entrepreneurship indicators.**

In Sri Lanka, ILO’s SIYB provided business training to two groups of women: one of women who already had a small business and one of women currently out of the labour force. Within each group, some women were offered the SIYB training and others the training plus a cash grant of about $130. Two years after the start of the project, for women already in business training alone had led to some changes in business practices that persisted over time. However, there was no impact on business
profits, sales or capital stock. In contrast, the combination of training and a grant had led to large and significant improvements in business profitability in the first eight months, but this had dissipated in the second year. For women interested in starting enterprises, business training (with and without a cash grant) had a positive impact on propensity to own a business and a negative impact on propensity to be in wage labour. However, these effects were fading (De Mel et al., 2013).

In El Salvador and Nicaragua, business training implemented by the NGO TechnoServe between 2002 and 2005, involving also a cash grant, led to a 25-56% higher probability of business expansion for those participants who already owned a business (Klinger and Schündeln, 2011).

In Ghana, an intervention targeting urban micro-entrepreneurs (tailors) provided a cash grant of GH₵ 200 ($52) and one year of consulting services by Ernst and Young. The tailors who received the capital grant invested the money in their businesses, but these investments did not increase profits. In fact, one year after the capital grant profit was lower among those who received the capital drop compared with the control group. Further, after one year, the entrepreneurs had reverted back to their old practices (Karlan et al., 2012).

The training many businessmen and women need may be of very simple nature and related to everyday operations.

Small businesses such as barbers, tailors and market vendors often lose sales because they do not have sufficient small bills or coins to give change to a buyer, who then chooses to go elsewhere. The average firm in western Kenya was found to lose 5-8% of profits because of a lack of small change at the time of sales. However, simple actions such as pointing out the problem seemed to improve things. For example, simply asking the owners about the ways they managed their change once a week for two or three weeks led to a 32% reduction in the number of lost sales. Taking a few minutes to go over a calculation of the lost profits attributable to poor change management led to a similar reduction, which translated into an increase in profits of 12% (Beaman et al., 2014).

A programme in the Dominican Republic teaching financial accounting skills to small entrepreneurs found a course based on simple rules of thumb was more effective than standard training in the fundamentals of financial accounting and decision-making. The former taught easily implemented decision rules without explaining the underlying accounting motivation. For example, it instructed micro-entrepreneurs to assign themselves a wage at the beginning of each month, to be paid on a weekly basis; no other money could be taken out of the firm. This way the owner could learn how profitable the business was without having to do cash flow analysis. Micro-entrepreneurs receiving the ‘rules-of-thumb’ training improved the way they managed their finances (with respect to the control group) as well as their businesses, with improved sales during bad weeks. Improvements were absent or smaller for those who received the standard training (Drexler et al., 2014).

Table B3: Evidence of impact of microfinance and financial assistance to SMEs

For poor self-employed people and informal, small and micro enterprises

There is no convincing evidence microcredit has a positive impact on the wellbeing of poor people (Duvendak et al., 2011). However, microcredit has been found to be able to increase engagement in economic opportunities and increase income in some circumstances (but reduces it in others). It has similarly mixed impacts on levels of savings and accumulation of assets, and in most cases reduces expenditure, although the advantages or disadvantages of the latter are not entirely clear.

A systematic review (Stewart et al., 2010) found microcredit had a positive impact on business income in Peru, Uganda and Thailand. In Peru, credit was found to have a positive impact on microenterprise revenue, for both current members and new entrants. However, this was only true for those borrowers who had three or more microenterprises and not for borrowers’ primary enterprises. In Uganda, more clients increased their profits from business in the month prior to being surveyed compared with non-clients. In Thailand, microcredit increased income from crop production.
Evidence from Sub-Saharan Africa shows the benefits of microcredit appear to diminish – and even become negative – the longer clients are enrolled in a programme. This is explained by the fact that, when microcredit fails to increase clients’ incomes, people are forced to borrow more, often falling into cycles of debt. So microcredit also has the potential for harm (Stewart et al., 2010).

A social experiment looking at the impact of group lending on women in Mexico found no evidence of transformative impacts. Loans were provided by Compartamos, Mexico’s largest micro-lender, and targeted women operating a business or interested in starting one. In particular, 27 months from the delivery of the loan, households in treatment areas were found to grow their business but there were no corresponding effects on business profits, entry or exit (Angelucci et al., 2014).

On the other side, a randomised evaluation of a microcredit programme in Ethiopia found introducing programmes to small, self-formed groups of borrowers increased the frequency of borrowing and amount borrowed by rural households, and mixed evidence that microcredit improved economic wellbeing or socioeconomic indicators. Further, those assigned to the microcredit programme showed substantive increases in their revenues from non-farm businesses and from crops, land cultivated and livestock owned and sold, relative to the comparison group, but these changes were not statistically significant – although this could owe to the relatively small number of people participating in the study (Tarozzi et al., 2014).

Microcredit programmes that focus explicitly – and often exclusively – on women seem to have a stronger positive impact on at least one dimension (borrowing, business creation, share of earnings from self-employment). However, the dimension where the positive impact occurs varies from case to case.

In 2005, Spandana started providing microcredit to poor women in the slums of Hyderabad, India. 15-18 months after the start of activities, average borrowing had increased by 8.3 percentage points in the areas served. Households were also 1.7 percentage points more likely to have started a new business, although no impact was found on per capita expenditure (Banerjee et al., 2014).

In Morocco, the local MFI Al Amana introduced microfinance targeted to women in 162 villages. Households in the villages were found to be 10 percentage points more likely to have microfinance borrowing. Two years after the introduction of microfinance, no significant impact was observed in terms of business creation, business survival or labour supply for self-employment activities, average levels of income and per capita expenditure. However, the treatment group had a higher share of earnings from self-employment than wage with respect to the control group (Crepon et al., 2013).

In Mongolia, XacBank provided microfinance with joint liability contracts to 15 villages and with individual liability contracts to another 15 villages. Beneficiary women were found to be 10% more likely to have a business under joint liability. No impact was found under individual liability contracts. In both cases, no significant impact was found on earnings and consumption (Attanasio et al., 2011).

### Table B4: Evidence of impact of unconditional cash grants for creating new enterprises

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<th>Providing cash grants to small businesses may result in large and long-lasting increases in profits and profitability.</th>
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<tr>
<td>An experiment in Uganda provided a grant of $150, five days of business skills training and ongoing follow-up and supervision visits to young adults, mainly women (86% of beneficiaries), living in 120 small rural villages in post-war northern Uganda. 16 months later, the proportion of people in the treatment group running non-farm business had gone from 39% to 80%, their employment had risen from 15 to 24 hours per week, household consumption had increased by a third and individual cash earnings had risen by 95%. The effects were comparable for men and women. Providing supervision through follow up-visits and encouraging the formation of groups among beneficiaries had small but significant effects: a month after grants, people expecting any follow-up visit increased the share of</td>
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the grant invested from 27% to 32%. After a year, supervision and advice increased business survival but not incomes. Further, beneficiaries who were part of groups strengthened their social interactions and support, resulting in some earnings gain, mostly following increased informal finance, idea exchange and cooperative farming. Despite large relative economic gains, however, there was no evidence of impact on women’s empowerment (Blattman et al., 2014).

The impact of cash grants on entrepreneurship can differ consistently for men and women. However, observed differences may not owe to gender itself but to business characteristics associated with it, such as the size of the firm. Accordingly, larger firms run or owned by women are more similar to men-owned enterprises, as their size indicates they have already managed to overcome some of the constraints specifically faced by women. In Sri Lanka, a field experiment provided unconditional cash grants in cash or in kind to a sample of small enterprises with capital stock (other than land and buildings) of less than $1,000. On average, the grants increased monthly profits of the business by 5.5% of the grant size in the first year and by 4.9% in the second year following the grant disbursement. Significant difference was observed in the returns to the grants by gender of the business owner: male-owned businesses realised a return of 9% in their monthly profit, while female-owned enterprises realised no increase in profits. Even five years after the grant disbursement, male-owned enterprises were realising a profit and female-owned were not (De Mel et al., 2008, 2012).

In Ghana, an experiment provided unconditional cash and in-kind grants to male- and female-owned microenterprises. For female-owned businesses only the in-kind grant had a positive impact on profit, and only for the top 40% of businesses in terms of initial size. Male-owned enterprises benefited from both types, with no differences associated with size (Fafchamps et al., 2011).

Table B5: Evidence of impact of interventions to promote pro-poor innovation

Dissemination of market information through radio or SMS helps poor farmers and traders by improving their bargaining power or choices in their markets (World Bank, 2012b).

In Sri Lanka, a randomised controlled trial investigated the effect of receiving real-time price information via mobile phones, combined with the provision of training and phone credit (approximately $1.80 per month). The treatment group of farmers increased their daily prices by 23%, 19% more than the control group (Lokanathan et al., 2011).

Similarly, in Ghana, farmers who received market prices via SMS through the Esoko Platform were found to receive 10% higher prices for three crops (Subervie, 2011).

A study by Aker (2008) exploits the quasi-experimental nature of the phased introduction of cell phone coverage in Niger, concluding that cell phone access enabled traders to achieve 29% higher profits than traders in non-cell phone markets.

Radio programmes set up by the Market Information Service Project in Uganda, which reach about 7 million people per week, have increased farm-gate prices for maize by 15% (Svensson and Yanagizawa, 2008). In 2004, ILO interviewed 1,111 individuals to assess the impact of the FIT Small Enterprise Media in Africa (SEMA) project. These organisations have worked with Ugandan radio stations to establish small enterprise-focused radio programmes. As of 2004, 12 radio stations had started to broadcast at least one small business-focused programme owing to FIT’s activities and 7 million adults across the country listened regularly to the programmes. 96% of those interviewed stated that the information had benefited their business. The most common example of this given was that their business had expanded by putting into practice what they had learnt on the radio.