Private Sector Engagement

A toolkit for effectively building and sustaining program partnerships with the private sector.

MercyCorps

Be the change

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Julie Denesha for Mercy Corps, Afghanistan, 2010
Mercy Corps, Nepal, 2008
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Purpose of the Toolkit

Why did Mercy Corps create the toolkit?

This toolkit was created because we recognize that engaging actively with the private sector on a program level helps us sustainably fulfill our strategic goals articulated in our Vision for Change. We understand that unique challenges arise when we engage the private sector as true partners and want to increase our understanding of how to do this more effectively. We have a desire to improve our skills and capacity agency-wide, so that we are more successful and consistent in our private sector engagement. Finally we want to prioritize private sector engagement (PSE), and a complementary market-driven approach, as a way to leverage resources to achieve sustainable, pro-poor change.

Who is the toolkit for and why?

This toolkit was created for anyone in the agency and serves three primary purposes:

1. To deepen our common understanding of private sector engagement and its importance to our Vision for Change, strategic framework and goals and to improve our ability to discuss how PSE programming supports those strategic aims.
2. To better recognize and prepare for private sector opportunities, improve the quality of private sector engagement design, and make better decisions about when and how to engage private sector partners.
3. To better understand the relationship between PSE, corporate social responsibility (CSR), and the concept of shared value.

When should this toolkit be used?

There are circumstances when you might need more information and resources to effectively engage with the private sector. Depending upon the situation, different sections of the toolkit would be most applicable. For example:

- ✓ You have just heard about private sector partnerships and want to understand what a PSE program might look like… start with the **Overview of Private Sector Engagement** (Chapter 1) for a high-level picture about these types of engagements and review some of our program profiles in the **Implementation Experience** section (Chapter 4).
- ✓ You are interested in developing a PSE program but do not know how to get started… go to the **Private Sector Engagement Strategic Framework** (Chapter 2) to see how PSE supports our Vision for Change and review key PSE strategies.
- ✓ You have an idea for a PSE program or a have an interested private sector partner and need to know how to develop the program strategy… review the **Private Sector Engagement Model** (Chapter 3) for an overview of the steps for effective PSE.
- ✓ You are starting to implement a PSE program and want to know about some pitfalls and challenges and how to avoid them… check out the **Key Challenges with Private Sector Engagements Tip Sheet** (Chapter 5).
- ✓ You are engaging with the private sector and want to know what incentives guide their behavior… go to **Private Sector Interests** (Chapter 2.3).
- ✓ You are starting to implement a PSE program and want to learn about some useful tools… go to the **Tools and Tip Sheets** (Chapter 5).

How is the toolkit organized?

Overview: Chapter 1 gives an introduction to PSE programming, connects PSE and our Vision for Change and includes a background on PSE.

Strategic Framework: Chapter 2 includes a review of the shared characteristics and qualities that PSE programs display, including strategic guidelines, program strategy, Mercy Corps approach, and the strategic interests that motivate the private sector to engage in this type of programming.

Engagement Model: Chapter 3 outlines six stages to develop effective engagement and then maps those to specific tools and tips sheets (Chapter 5) that support each stage.

Implementation Experience: Chapter 4 includes nine program profiles describing Mercy Corps programs with significant private sector components, each mapped to the strategic characteristics reviewed in Chapter 2.

Tools, Tip Sheets and Resources: Chapter 5 includes 10 tools, 16 tip sheets and key Mercy Corps and external resources.

Annexes contain useful information about how donors and governments view PSE programming, a glossary of terms and FAQs.

This toolkit was developed by the Economic and Market Development Technical Support Unit (EMD TSU). We believe the key to successful private sector engagement is to use the information in this toolkit on a regular basis, not only when a specific PSE opportunity arises. Engaging effectively with the private sector is more successful when the mindset for how to do so is imbedded in our work, and we hope this resource will help you build that mindset.

We also have three requests: The first is to share this with your teams. The second is to send us feedback. Just as the practice of private sector engagement is evolving, so must this toolkit. We recognize it is a work in progress so send any and all feedback to the EMD TSU. The third is to join and participate in the private sector engagement community of practice. That is the most current and effective way to share best practices, successes and challenges in this area, and we hope you will contribute to that.

Graphic Tools:

There are a number of graphic elements to help navigate the PSE Toolkit:

Key Program Attributes: Identifies one of 21 attributes that describe PSE programs. Each has been considered for how it is demonstrated in the nine Program Profiles in the toolkit. See page 34 for the *Program Profile Cross-Reference* table that compares these characteristics across nine program profiles.

Tools and Tip Sheets: Highlights a *Tool* or *Tip Sheet* that supports the particular topic. See pages 62 and 63 for a list of all tools and tip sheets collected for the toolkit.

Important Information: Identifies the most critical information in each section.

Key Challenge: Highlights the most common challenges related to PSE programs.

Real-World Experience: Highlights the important learning we have gained in our PSE programs.

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Photo: Julie Denesha for Mercy Corps, Afghanistan, 2010

Acronyms

BDS . . . . . Business Development Services (also called Business Services)
BEE . . . . . Business Enabling Environment
BER . . . . . Business Environment Reform
CSO . . . . . Civil Society Organization
CSR . . . . . Corporate Social Responsibility
DFID. . . . . UK Department for International Development
GDA . . . . . Global Development Allliance
INGO . . . . . International Non-Governmental Organization
M4P . . . . . Making Markets Work for the Poor
MFI. . . . . Microfinance Institution
MNC. . . . . Multinational Corporation
MSME . . . . Micro, Small and Medium Enterprise
PSE . . . . . Private Sector Engagement
PPP . . . . . Public-Private Partnership
PR. . . . . Public Relations
ROI . . . . . Return on Investment
SDC . . . . . Swiss Development Corporation
TBL . . . . . Triple Bottom Line
USAID . . . . US Agency for International Development
WBCSD. . . World Business Council for Sustainable Development

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1. Overview of Private Sector Engagement

1.1. Private Sector Engagement and our Vision for Change

Mercy Corps' mission is to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities.

Our Vision for Change, based on the Universal Declaration of Human Rights, is that peaceful, secure and just societies emerge when the private, public and civil society sectors are able to interact with accountability, inclusive participation and mechanisms for peaceful change.

Mercy Corps' strategy is to operationalize our Vision for Change through community-led, market-driven programs.

As reflected in our Vision for Change, the private sector is one of the three key actors that contribute to building secure, productive and just communities and engaging that sector is fundamental to achieving our mission. We engage the private sector in different ways: as a program participant/beneficiary, as financial or material aid donor and as a program partner. We have observed that the private sector, as a program partner, has enormous potential to achieve wider and lasting benefits for the communities we serve. By leveraging the resources, relationships, talent and embedded role of the private sector, our interventions can be more sustainable and achieve greater scale.

- ***Sustainability:*** The very nature of the private sector, as local actors with a permanent market function, means that engaging them can enhance sustainability. As long as a private sector entity has the opportunity to achieve adequate profit or return on investment (ROI), it will be more likely to support and invest in an initiative beyond Mercy Corps' involvement. ROI can include not only financial profit but also meeting organizational, social or environmental objectives.
- ***Scale:*** By incorporating activities into their core business and utilizing their ongoing resources, the private sector can reach greater scale than Mercy Corps can on our own. That scale can happen geographically or it can manifest as a scope expansion into complementary products or services.

Partnerships are a common strategy across Mercy Corps' programs, and private sector engagement is a form of partnership tailored to specific goals. Our private sector partners may only be engaged in portions of a program to meet specific objectives or to focus on one aspect of sustainability. In that case, Mercy Corps may have additional objectives that are implemented independently of a private sector partner or social objectives that are reached through other program activities. In other instances, a private sector partner is integral to all of the objectives of a program and is involved in all aspects of implementation.

! **Our Mission Comes First!**

A challenge may arise when a private sector partner is engaged in activities that are contrary to the values articulated in our Vision for Change. Examples of this could be a corporation engaged in blatantly unsustainable business practices; for example like harming the environment. Mercy Corps would not partner in a program contrary to our core values, but the question becomes more difficult when the offensive activities are present but unrelated to our engagement. The key is Our Mission Comes First. We would not engage in activities that are contrary to or jeopardize our mission to create more productive, just and peaceful communities, and we employ an active due diligence process to support that aim.

1.2. Defining Private Sector Engagement

Private sector engagement is about bringing the private sector into the poverty alleviation agenda. It is about helping the private sector change the way they do business so that their activities benefit the poor and benefit their business. It is about giving the private sector a seat at the table in an active way during the program design process and retaining that level of engagement throughout the program lifecycle. Examples of PSE would be a relationship with technical consulting companies that provide training or business development services (BDS) to entrepreneurs from marginalized populations, with research firms that gather and distribute market data, or with input supply companies that provide goods and technical support to poor farmers. It includes relationships with companies of all sizes ranging from micro, small and medium enterprises (MSMEs) to regional, national and multi-national corporations (MNCs).

A private sector engagement is **not**:

- A donor relationship where we directly support building small businesses and the private sector as program participants/beneficiary.
- A limited corporate social responsibility (CSR) program in which the private sector actor is providing financial or material support only to meet social or public relations goals.
- An engagement limited to buying or selling materials or services with program participants as a business transaction.
- A material aid relationship with the private sector donating goods either to our teams or to program participants.

Key Definitions: Participants, Engagement Partners, and Firms

The following are three key terms that are used throughout the PSE toolkit.

Participants: This is the term we use for individuals in local communities who are served by our programming. At Mercy Corps (and in other NGOs) this group is often referred to as *beneficiaries*. However in a market-driven development approach we view them as active actors in our programming, rather than passive recipients benefiting from our efforts.

Engagement Partners: This is the term that we use for a private sector firm or business group that is working with Mercy Corps on a program engagement.

Firm: This term is interchangeable with company and business, and refers to a private sector commercial entity.

What IS and What IS NOT a Private Sector Engagement Program in Mercy Corps

Program	Location	Description
IMARE	Guatemala	This **IS** a PSE program. Engagement to connect poor Guatemalan farmers to a national supply chain focused on both commercial goals and a pro-poor social agenda.
Alliances	Georgia	This **IS** a PSE program. Engagement with local and national private sector actors that broadens and deepens the livestock market for increased market access for the poor.
Spicing up the Deal	Nepal	This **IS** a PSE program. Engagement with trade associations, agriculture suppliers and microfinance institutions to increase incomes of smallholder cardamom and ginger farmers.
PUSH	Indonesia	This **IS** a PSE program. Engagement focused on facilitating market relationships to increase access to affordable environmentally friendly sanitation infrastructure and services.
ITT	Global	This **IS NOT** a PSE program. ITT provides material goods, support and funding for emergency response. However ITT's approach excludes engagement at the specific program level and in the design of the activities they support.
CHILI	Indonesia	This **IS NOT** a PSE program. Green Mountain Coffee provides funds for community development in areas they source their coffee where Mercy Corps operates, however they are currently not active program partners.

Currently, our PSE programs are tightly focused – targeted in a specific area or sector with specific program goals and with a small number of companies. A broader approach would be to work on platforms or campaigns across countries and/or regions with a group of private sector partners or a global partner.

Private Sector Engagement Is Not Just in the Economic Development Sector

Much of our experience to-date with the private sector is focused around economic development, with a heavy focus on agriculture and reducing energy poverty. We can, and should, engage the private sector in all relevant program sectors, including the provision of basic services such as water and sanitation, food security, natural resource management, emergency response and conflict management. One example in the sanitation sector is the Program of Urban Sanitation and Hygiene Promotion PUSH which is focused on developing private-sector managed micro-sanitation systems in urban slums in Jakarta, Indonesia.

1.3. Types of Private Sector Partners

Individual private businesses include established and startup businesses, ranging from micro, small and medium enterprises (MSMEs) to multi-national corporations (MNCs), and may be motivated by different incentives related to their size and focus. Some private businesses we partner with are strictly focused on profitability. Others may be social enterprises combining their commercial objectives with a social or environmental mission, also defined as double or triple bottom line businesses (see Triple-Bottom Line on page 19).

Context Dictates the Engagement Approach

We engage with private businesses in different ways depending upon the type of business, our program goals, the interests of our private sector partner and the general contextual situation. Assessing those aspects prior to developing an engagement strategy is a crucial first step.

Microenterprises: One kind of private business we commonly work with is a microenterprise. These are typically defined as a business with fewer than five employees, small capitalization[1] relative to their country context and minimal forward and backward value chain linkages.[2] Given that criteria, in most instances microenterprises are participants of our programming rather than engagement partners. When we do engage with microenterprises, we do so because they are capable of creating significant numbers of local jobs or a platform for larger benefits, such as microfranchises for health products.

Lead Firms: Private business can also be categorized as lead firms. These are companies characterized by having significant forward and backward linkages with other businesses and a strong commercial interest to engage with other businesses. Lead firms are also strong market actors, as demonstrated in multiple ways including adding significant value to products or services, providing training or services to other enterprises or being innovators or visionaries in their business sector.[3] These qualities make them strong partners for Mercy Corps, especially when our role will be centered on facilitating among stakeholders. Lead firms are not only large companies; MSMEs are often successful lead firms.

Multi-National Corporations (MNCs): The vast majority of our engagements with private businesses are with MSME lead firms operating in one country or one region of a country. However MNCs can also be lead firms and, because of their size and reach, may offer greater opportunity for leverage and resulting scale and sustainability. MNCs have assets that can be a significant benefit to Mercy Corps when we have a program that focuses

Mercy Corps Founded Business

Sometimes, when there is a perceived gap in the market and an adequate private sector partner is not available, Mercy Corps starts a new business. We have found advantages and challenges to this approach. Carefully analyze and consider the purpose and structure of the company and Mercy Corps' role before embarking in this direction (see Mercy Corps as a Founder for more detailed discussion).

1 Capitalization is defined as the amount of investment of the owners in the business enterprise.
2 Backward linkage is the channel through which information, material, and money flow between a company and its suppliers. Forward linkage is the distribution chain connecting a producer or supplier with the customers.
3 *Cycle 1: Defining Lead Firms And Principles Of Facilitation,* Action for Enterprise, 2008

on developing or expanding private businesses. Those assets include; convening power such that people listen and take notice when a MNC sets an example or supports a particular program or position; value creating resources including sector specific technical and market-based knowledge that can contribute to program impact; and market potential to buy large quantities of goods and services from program participants, such as farmers.[4]

An MNC may have longer-term economic interests compared to other types of private partners when engaging with Mercy Corps. A good example is the Mars Corporation's partnership in Indonesia. Mars Corporation's Indonesian offices are providing technical training in cacao farming to Mercy Corps' program participants. If that training is effective at raising the quality of the cacao to international standards, the corporation may become a major buyer from those farmers (see *MERP Program Report* in Resources).

Refer to the **How to Engage with an MNC** tip sheet for specific suggestions on working with MNCs.

See the **Key Challenges with PSE** tip sheet for a list of common challenges that arise when engaging with the private sector.

Business Groups: These include cooperatives (co-ops) and business/trade associations. A **co-op** is a business organization owned and operated by a group of individuals for their mutual benefit. In our context, a co-op typically is a group of farmers or tradespeople formally joined together (sometimes pre-existing, sometimes formed as part of a Mercy Corps program) to more effectively access a market or leverage their position in the marketplace. Partnering with co-ops can increase the efficiency of working with small businesses but it can also be problematic, particularly if we overestimate the capacity of the co-op, underestimate the challenges of group dynamics, or minimize the challenges of forming such a group.

A **business/trade association** is a membership organization typically supported by the particular business community and focused on collaboration in such areas as policy development, public relations, advertising and product standardization. When engaging with a business/trade association it is crucial to match our objectives to the structure, mission, and capacity of the group, and to consider how it is organized and registered as that may limit what the association is capable of and legally permitted to do.

MNC Support Takes Many Forms

In some circumstances, a MNC may direct funding to such things as business development services to enable the program participants to be more successful, or support non-economic development program goals. The latter may directly support the MNC's CSR goals which could be a primary incentive. A good example of that is the CHAI program in India in which Tazo/Starbucks partnered with Mercy Corps to support health and education programming in the region where they source their tea.

See the **Working with Co-ops and Trade Associations** tip sheet for more detailed considerations about the advantages and disadvantages of this kind of partnership.

Partnerships are Critical to Achieving Our Mission!

Partnerships are a common strategy across Mercy Corps programs, and PSE is a form of partnership. The 10 **Principles of Partnership**, - Equity, Transparency, Mutual Benefit, Community Importance, Neutral Aid, Fiscal Responsibility, Consistent Communication, Coordination, Learning and M&E - are all applicable to PSE.

The **Mercy Corps Local Partnership Guide** for principles and tools supporting local partnerships across sectors.

4 Adapted from: *Enterprises Solutions to Poverty: Opportunities and Challenges for the International Development Community and Big Business.* Shell Foundation, 2005

1.4. Key Private Sector Engagement Attributes

Private Sector Engagement has a few key attributes that are not unique to PSE programs but may take on increased significance for these types of programs:

- **Initial Size:** PSE programs almost always start small as pilots. This aligns to the private sector investment mindset that favors launching new ideas as pilots to validate the assumptions about operations, profitability, scalability and ROI. Piloting is essential to PSE programs with an economic development focus because it enables a program to start small and scale appropriately after the model is proven. Ideally this dynamic is recognized up front and is incorporated into the program design. The MORE program in Mongolia was initially proposed and funded as a 3-year pilot but all parties understood that sustainability would not be achieved until 6 years elapsed. The program proposal acknowledged this important consideration, included initial goals supporting the program as a pilot, and recognized that further funding would be needed to achieve sustainability. That funding was approved in 2011.
- **Goals and Profitability:** A core goal of the private sector is ROI and private sector partnerships almost always look toward profitability. Another way to think of this is in terms of sustainability: in order for a firm to be sustainable, it must earn a profit. In order for a program intervention to be sustainable, the activity must be able to cover its ongoing costs without donor funding. So the firms' goals of profitability and Mercy Corps' goals of sustainability are often complementary. A private sector partner's goals may also include meeting social or public relations objectives, enhancing their reputation and improving their standing in the community. Mercy Corps' PSE programs must take into account private sector interests and goals to be successful.

Key Challenge: Misaligned or Misunderstood Goals and Objectives

Typically these types of challenges stem from the different outlooks the private sector and Mercy Corps bring to a partnership. From Mercy Corps' side, program teams may have difficulty understanding the goals of the private sector, particularly if those private sector entities are national companies or MNCs. Our program way of thinking with a fixed start and end date and very defined objectives may also be contrary to a private sector approach, which is to start small and scale, being limited not by time but by the extent of the opportunity. From the private sector standpoint, misalignments related to goals, timeframe and incentives can also arise between in-country staff and MNC headquarters.

We understand that the private sector may not have a business reason to build participant ownership in a program, and the amount of time it takes to achieve community participation may pose challenges for them. Both of these are often key programming goals. Private sector partners may also have goals to achieve scale, but not recognize that scaling requires added resources, prior to a program being deemed worthy of more funds from a donor's perspective.

Naturally, private sector priorities may also be less focused on the development goals that Mercy Corps supports. Their focus may be on maximizing profitability and efficiency with the goal of creating a sustainable enterprise, rather than emphasizing positive impacts for local communities. This can lead to pressure to make trade-offs; however if managed properly and equitably, the right balance can be found that achieves enough of both goals. Furthermore, eventual program sustainability is anticipated to have greater long-term benefit for the poor.

There may also be mistrust or suspicion between private sector parties and other actors such as business groups, local or regional government, and program participants. This may stem from long-standing distrust related to politics, history, or cultural/social disputes that can take extended time and effort to overcome. However, overcoming mistrust may be a prerequisite to gain cooperation and ensure program alignment.

- **Market Research:** Because the private sector operates in a competitive and dynamic environment, PSE programs often have an on-going market research function that enables rolling identification of new potential partners, market drivers, opportunities and threats. While all Mercy Corps programs include assessments, PSE programs may require more frequent research and assessments that are built in to program implementation in order to continually adapt activities and partners.
- **Time Frame:** The objectives of private sector engagement will often have a time horizon that goes beyond our program funding. This means that we may have specific outputs and deliverables within the donor funding period but the main impact may occur after the program is completed. This is due to the focus on scale and sustainability. Some PSE programs also have a designated inception phase that is used to conduct market assessments and build relationships with market players, leading to program design adjustments in the implementation phase.

Key Challenge: Time and Timing

PSE programs may require more time to reach sustainability than we and our donors are typically accustomed to. This requires shifting from a traditional program cycle way of thinking to a business-focused way of thinking: start small and scale over an extended time. It also requires educating donors about the intricacies of these programs. Additional challenges include:

- The time span can be extended further for complex value chain or agriculture programs with annual harvests.
- MNC partners may need to communicate results before significant program progress is evident, even though they recognize that scalable, sustainable activities take extended time to develop.
- Changing our program participants' mindset about the timeframe of results may take additional effort and sensitivity so as not to create tension or resentment within the program.

At the same time, in response to demands for profit from shareholders, the private sector may not prioritize programs that involve difficult and entrenched problems such as governance, education and health. Partnerships addressing these types of problems may require education of the private sector's stakeholders to ensure their long-term support.

Hurry Up and Wait! Decision-making in the private sector can be protracted, however once a decision has been made to engage in a program, the private sector can be impatient. They may expect implementation to happen more quickly than we are capable of, in part due to their lack of understanding about the constraints that program-based funding places upon us and the time required to build support from all stakeholders.

Who Initiates a PSE Program?

Similar to other Mercy Corps program ideas, PSE concepts come from multiple sources:

- **Mercy Corps HQ or Field:** Concepts may be generated from recognition of an opportunity or a need on the part of a Mercy Corps team in HQ, regional or country offices. In some cases a local or international private sector partner is involved in identifying the opportunity - such as in the case of Indonesia where we partnered with Mars Corporation to support cacao farmers (see MERP program report). In other situations, once the idea is generated and validated we search for an appropriate private sector partner.
- **Private Sector:** A private sector actor – typically either a MNC or a local/regional company – will come to Mercy Corps to suggest a partnership. Most often they are motivated by commercial opportunities and may emphasize a pilot program to test the opportunity, looking to achieve future profitability and sustainability. In other circumstances, that motivation is also supported by a CSR goal, or a "shared value" perspective.[5]
- **Donor:** Program concepts are often driven by donor requests for proposals. Compared to private sector-led initiatives, donor-driven initiatives with a private sector focus are typically shorter-term, have defined funding cycles and operate to pre-determined activities and metrics. By their nature they usually have less tolerance for failure as a way to learn and find new opportunities. See the Donor Perspective annex (Chapter 6.1) for more information.
- **Public Sector:** A government agency that is not a donor, typically at the local or regional government level may suggest an engagement often related to public-private partnerships. The government may request Mercy Corps to be involved to ensure the transparency and impact of the program and to ensure community engagement. (See page 24 for more detail on public-private partnerships.)

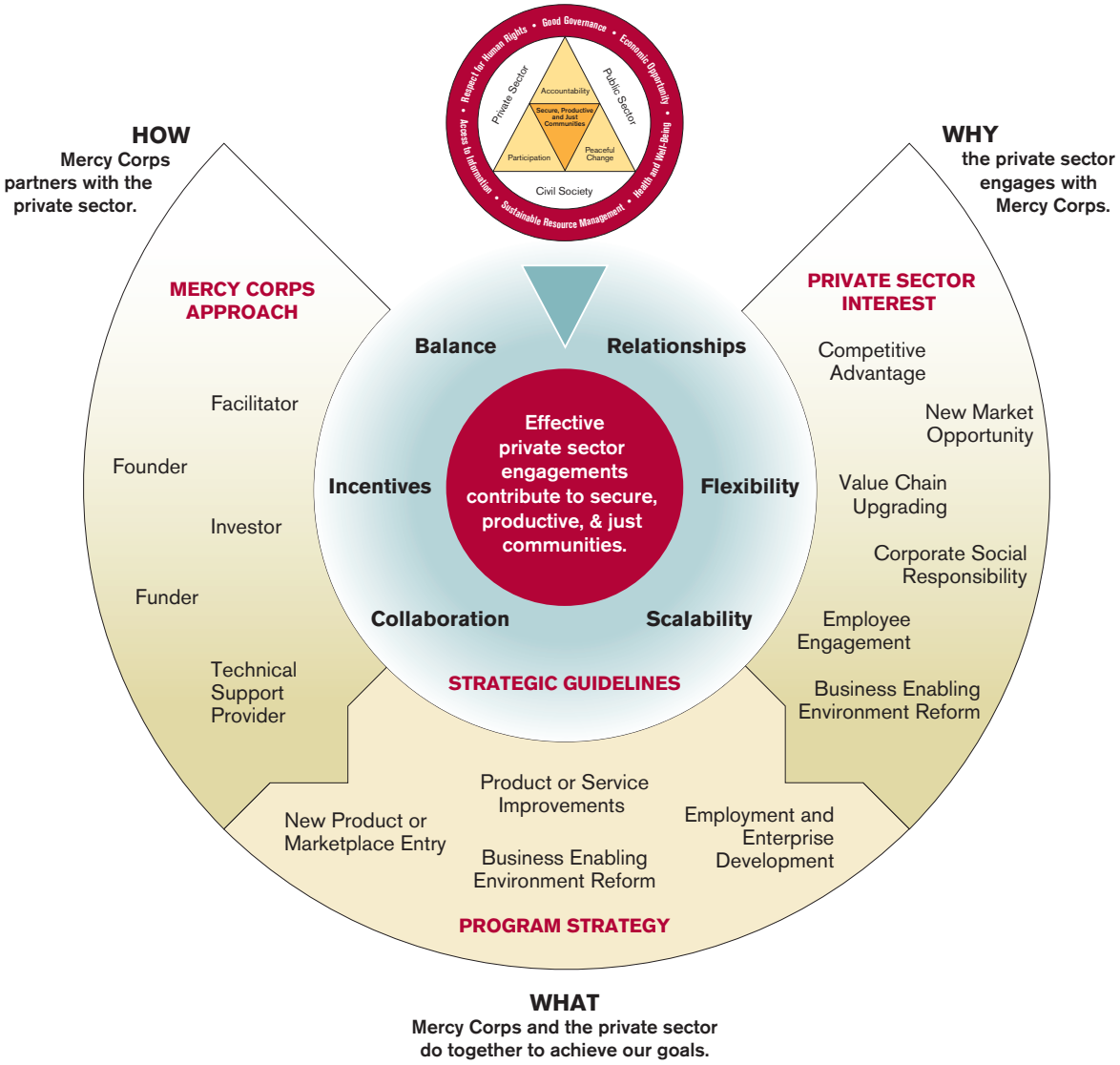
Program-Focused Funding Can Create Misunderstanding

The private sector may not understand that Mercy Corps usually funds each program independently and needs funding even to play a facilitation role. The issue of asking the private sector for funding to cover Mercy Corps costs, or look for supplemental funding, can be difficult so it is recommended to clarify this dynamic early in the process.

5 Shared value is the concept that if business genuinely respects people and institutions, the business will benefit.

2. Private Sector Engagement Strategic Framework

This strategic framework connects private sector engagement with Mercy Corps' mission and Vision for Change. It directly supports the *PSE Engagement Model*, includes the key attributes of private sector engagement, and connects private sector interests and our approach to an effective program strategy.



Core Level:

- **Goal:** *Effective private sector engagements contribute to secure, productive and just communities.* This directly reflects the Vision for Change and the role the private sector shares with civil society and the public sector in supporting our principles of accountability, participation and peaceful change.
- **Strategic Guidelines:** Reinforcing the goal are six attributes that demonstrate the unique nature and challenges found in PSE, recognizing that while the private sector may have secondary social, environmental or cultural goals, their minimum central requirement is profitability.

Supporting Level:

- **Mercy Corps Approach** and the **Private Sector Interest** are the two fundamental elements that each side brings to an engagement. In combination they support the **Program Strategy** which meets the goals and objectives for both parties.

2.1. Strategic Guidelines

Based upon our experience, Mercy Corps has developed a set of *Strategic Guidelines* for private sector engagement. These are a set of unifying concepts that connect the Vision for Change to community-led, market-driven programming, founded on the perspective that an active and productive engagement with the private sector is a crucial element of this vision. **Sustainability** – creating positive change for the poor that will continue without ongoing Mercy Corps support – is a particularly important over-arching principle for PSE programming. It is also a goal that is common to both the private sector and Mercy Corps. The private sector sees sustainability as activities that have potential for extended positive returns or profit.

These six strategic guidelines serve as a reminder about the nature and challenges of PSE programs given Mercy Corps and private sector interests. They are: **Incentives, Balance, Relationships, Flexibility, Scalability** and **Collaboration:**

1. **INCENTIVES:** *All partners require incentives to engage in development efforts and those incentives may differ for private sector actors, and we understand that finding effective incentives is a complex but critical engagement step.*

   An incentive is anything that motivates a person or an organization to do something. For the private sector, incentives must include a financial benefit, such as increased profits or market share, something that lowers risk, or something that improves the chance of success. For a Mercy Corps program participant, an incentive could be any direct benefit to their livelihood, such as an advanced commitment to buy products they produce. For district and local governments, an incentive could be that the program activity helps address their development agenda or appeases community concerns. The Afghan Fair-trade Grape GDA in Afghanistan is a good example of a program in which commitments from a European fair-trade importer incentivized Afghani farmers and others to take the steps required to produce raisins that met international quality standards.

   One form of direct, short-term incentive that can be used to encourage program participation are program subsidies. These can be used by Mercy Corps to lower the financial risk a private partner has, increase access, test a market solution, or encourage participants to be early adopters. However when subsidies are used to incentivize partners in a PSE program, they should be used 'smartly.' Smart subsidies are subsidies that are used as little as possible and with a clear plan and exit strategy, so that the program can be scalable and sustainable without them.

2. **BALANCE:** *We recognize the need to strike a balance between the development objectives of Mercy Corps as articulated in the Vision for Change, the goals in our annual Strategic Roadmap, the objectives of our donors and the commercial interests of our private sector partners.*

   The guideline of balance recognizes that there may be bias on all sides engaged in a PSE program. Donors may have misgivings about using their resources to enhance a company's profitability. The private sector may view donor performance metrics as a distraction from their strategic goals. For all actors, economic performance and social change may be seen as competing and requiring "trade-offs."[6] From Mercy Corps' perspective, we may not want to engage with companies whose practices are not compatible with our values. In these situations, we need to balance our objectives with those of others and decide whether and how to engage. KeBAL Indonesia is an example of finding the right balance to achieve the goal of creating a profitable business entity that can serve a social mission to reduce malnutrition in Jakarta slums.

Due Diligence – An Essential Step of the Balancing Process:

Due diligence is the process that Mercy Corps uses to determine the possible risks and advantages of new partnerships or a new program with an existing partner. The goal of due diligence is threefold: To ensure our partnership and program is (a) compatible with our mission and supports our development goals; (b) does not pose a risk to our reputation and integrity in the countries where we work and with our donors; and (c) does not create a risk for the wellbeing of Mercy Corps staff and participants.

See the **Due Diligence Assessment** Tool for more information, including a step-by-step guide to conducting due diligence research and links to related resources.

6 London, T. & Anupindi, R. *Revisiting Value Chain Initiatives: Insights from the Base-of-the-Pyramid Perspective* USAID, 2010

3. **RELATIONSHIPS:** *We recognize that personal and professional relationships have an important role in private sector engagement and the best of those relationships take thoughtful effort and extended time to develop.*

Building relationships with private sector partners is time-consuming and requires a focused, dedicated effort. Sometimes that effort will pay off quickly. Other times the payoff may take much longer or may not come at all. Some of those relationships are with important networked individuals at a national level. This was demonstrated by a program in the Philippines where strong relationships to important stakeholders made a huge difference in moving the program forward.

Other times relationships will be with very local private sector actors. Developing relationships with those actors/employees may be a precursor to developing a successful relationship at a higher corporate level. How a firm is structured and where the engagement will take place also impacts how we build relationships. We would likely approach an engagement with a local lead firm, regional company, national corporation and MNC all quite differently. Without strong personal relationships a PSE program will not succeed.

Hierarchy is Important

Hierarchy and seniority may have greater importance with private sector partners compared to other actors we partner with, and this perspective goes both ways. The private sector expects us to engage with them at the appropriate level, and they expect us to engage from the appropriate level at Mercy Corps, involving senior staff on both sides at the right time.

4. **FLEXIBILITY:** *The private sector is necessarily dynamic, which enables it to respond to market shifts and opportunities. We recognize our programming and structure requires maximum flexibility – as allowed by our project-based donor framework – to respond and evolve appropriately to that environment.*

Objectives, focus and activities of PSE programs may change more frequently than other Mercy Corps programs due to an emphasis on piloting and testing or changes to private sector business goals and CSR objectives. Additionally, responding to external market changes such as shifts in global commodity prices, currency fluctuations, macro-economic factors, new players entering the market and changes to government policy and rules requires continuous context analysis and program flexibility.

Flexibility may also be needed to respond to leadership changes in the private sector partner, such as when one highly-committed corporate manager is replaced by one with a different vision of partnership or less commitment. When management changes, discussions of strategy/rationale and impact-to-date may be necessary with the new manager to build his/her support or the program may need to evolve to meet the new corporate situation.

It is important to incorporate a framework for evolution and change into PSE program design. One way to do that is through an iterative program design that can change and evolve as technical learning is gained, relationships are developed, and markets are better understood. In some market-development programs, the donor designates an inception phase expecting program design to be modified in response to initial activities and research. Both DFID and SDC are moving to this type of strategy overall, and we have direct experience with that, for example with the SDC-funded Alliances program in Georgia.

Putting Bias Behind Us:

A critical aspect of flexibility is being able to set aside pre-conceived notions or biases. The inability to do so can become an issue when programs need to evolve or when implementation and management issues arise.

5. **SCALABILITY:** *We recognize that scalable programs are indispensable for most private sector engagements. This requires attention to efficiency, standardization, a smart use of subsidies and a sustainability plan that does not include Mercy Corps in a direct service delivery role.*

An important requirement for achieving adequate scale is ensuring the private sector partner can still meet its interests and achieve their program goals. For Mercy Corps, achieving scale helps ensure the benefits generated for the poor can be expanded and sustained. Setting clear goals with scalable targets will help achieve both of those requirements.

One characteristic of a scalable PSE program is a pilot phase. In this context, a pilot should be founded upon a vision for scale - perhaps a roadmap in the program plan - that will lead to an adequate ROI for the private sector and sustainable change for the poor. This differs from many of our programs that may test a program concept but may not include a defined path beyond that proof of concept.

There are a number of activities that help a program reach scale, including actively monitoring the implementation, regularly checking with the private sector partner to make sure market forces and goals have not significantly changed, and avoiding excessive focus on minor issues that do not affect the larger goal. Together this requires active management and constant attention to increasing efficiency, maximizing the use of resources, standardization, and structuring activities so they are easily replicable.

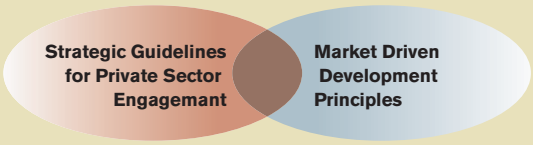
Exit Strategy:
One crucial element of sustainability includes having a Mercy Corps exit strategy. Our goal should be to extract ourselves entirely from a program as soon as possible or reduce our role to a very low support or observation role that requires no additional donor support.

6. **COLLABORATION:** *Strong, effective collaboration between businesses, the public sector, civil society groups, and Mercy Corps are fundamental to successful private sector engagements and we understand the importance of collaboration and participation to create win-win outcomes.*

Engaging all parties in a participatory, collaborative manner that works towards everyone's goals and objectives is especially important in PSE programs. This is due to the divergent goals each party may bring to the partnership, potentially ranging from a sole focus on supporting the poor, to satisfying constituents, to gaining a competitive advantage in the market.

One key element to successful collaboration is to understand and respect the perspectives and roles of each key stakeholder group and actively foster communication among those groups. It is important to assess early on and throughout the engagement what those roles are and how they fit together. The MORE program in Mongolia has a strong collaboration element in the formation of tripartite stakeholder groups in each district that bring together government, CSOs, and businesses to increase local outsourcing of government procurement.

Strategic Guidelines and Market Driven Development Principles:
There are strong correlations between the *Strategic Guidelines for PSE* and the *Market-Driven Development Principles*. Both explain programming involving the private sector; however the Strategic Guidelines apply only to the private sector whereas the Market-Driven Development Principles apply to the public sector, civil society and the private sector. Additionally, the Strategic Guidelines are helpful to understand all relationships and engagement with the private sector; even when we are not following a market-driven development approach.



Refer to the **Market-Driven Development Principles** tip sheet for the definitions and details of these principles.

2.2. Mercy Corps' Approach

Mercy Corps' experience shows that there are five primary approaches that we may adopt in PSE programs, depending upon the program design, capacity of the existing private sector, our experience in a particular country, and the context. In some circumstances, Mercy Corps will take on multiple approaches and oftentimes our approach will change as the program moves from a pilot phase to scalability and sustainability. Based on Mercy Corps' experience, the primary approaches for engaging with the private sector are **facilitator, technical support provider, funder, investor** and **founder**.

Limiting Mercy Corps' Role

From our programming experience, we have learned the value of limiting our role and only implementing directly if there is no existing stakeholder to accomplish the outputs or achieve the goals. We avoid taking on a role unless it is truly necessary, in the interest of sustainability and supporting local solutions.

1. **FACILITATOR:** An important aspect of sustainability is facilitation. Rather than Mercy Corps directly implementing activities and making sure participants know that we supported them, we try to bring local actors together to do the work and we simply act as a 'connector,' building relationships, filling in knowledge gaps, and 'facilitating' the actions of the permanent local actors. By keeping our role as hidden as possible and promoting relationships among local actors, we ensure that the activities can continue without Mercy Corps. Specific facilitation interventions can take many forms. Some examples are:

- Bringing together different actors in a value chain to discuss common problems and the need for better government regulation.
- Connecting local health clinics with the local Health Ministry to improve information flow on disease outbreaks.
- Supporting a competition to develop a new prototype model of a household septic system.
- Linking importers with rural retail outlets to increase the availability of alternative energy products.

Ideally we try to limit our role in PSE programs to facilitation but we may need to add additional roles listed below because of gaps in the market.

Principles of Facilitation:[7]

- Promote relationships between permanent local actors rather than with Mercy Corps
- Choose the appropriate lead firms as partners
- Structure collaboration with lead firms carefully
- Ensure sustainability of impact, including being mindful of the impact of subsidies

Refer to the **Facilitation** Tip Sheet for more detail on the principles of facilitation

2. **TECHNICAL SUPPORT PROVIDER:** In many situations, Mercy Corps provides technical support to the private sector or other actors to increase capacity to fulfill their existing role or to take on new roles. This includes providing sector technical knowledge, business planning and governance, business modeling, market research, or mentoring. The training on good governance and disaster risk reduction as part of the Alliances program in Georgia is a good example of technical support. Another example is the business plan we completed for the SCHS program in Guatemala to demonstrate to private sector partners and potential investors the viability of the micro-franchise model in that program.

3. **FUNDER:** In some circumstances Mercy Corps will provide funds to cover activities of a business. This may be done to test and demonstrate viability of a new concept, spur behavior change, support a pilot or inception phase, buy-down risk for introduction of a new product, expand to a new geography, or encourage uptake.

In some cases, Mercy Corps provides direct grants to a business. An example is a grant Mercy Corps made to the social enterprise Backpack Farm Program to help demonstrate viability of a mobile phone-based tool to provide text-based technical support to Kenyan farmers. Another example is grants to MFIs for operating costs, loan guarantees or loan funds made to spur the MFI to lend to target MSMEs. Grants to private businesses

7 *Cycle 1: Defining Lead Firms And Principles Of Facilitation,* Action for Enterprise, 2008

must be structured to ensure that all grant funds are used for the specific mission/program objectives and not result in excessive profit for the business or its owners. It is also important to ensure that the grant is used for short-term and/or start costs and that the activity can continue without the direct subsidy.

Refer to **Smart Subsidies and Financing** tip sheet for specific guidelines about when and how to provide direct grants to a private sector partner.

4. **INVESTOR:** In some circumstances, Mercy Corps will provide capital to a business as part of a PSE program. Typically this approach is taken when Mercy Corps decides we want to hold a share in a new business, where private sector financing is unavailable, or where private sector partners are unwilling to invest due to perceived risk. In this role, we make an investment in a private business and, via that mechanism, retain a partial ownership stake in that entity. This type of investment is called an equity investment and we often refer to them as program- or mission-related investments.

Mercy Corps has a history of making investments in private businesses, primarily MFIs. Recently, we have made the choice to invest in 'new' business sectors, including Bank Andara in Indonesia and MICRO in Haiti. When there is an option to make direct investments in a MSME, start-up business, or business within the market we are supporting, we require clear legal and financial structures. Most often, Mercy Corps' equity stake comes from donor funds (for instance the Gates Foundation supports Bank Andara) or from privately raised funds post-crisis (such as MICRO in Haiti).

An example of a Mercy Corps equity investment in an MFI is XacBank in Mongolia. We initially founded and invested in a non-bank lending institution that later merged with another institution to create XacBank. Through that merger, our position evolved to that of an equity investor and shareholder in the new institution. Ideally, we would only hold that equity investment if it meets our strategic interest (i.e. further our pro-poor programming).

Key Challenge: Investments and Compliance Is Highly Complex

Whenever considering making an equity investment or exploring a joint venture with a private business, it is essential to involve our legal, finance and compliance teams early on in the process. These teams can assist with investment structuring, identifying and hiring the appropriate local professionals (attorneys and accountants), due diligence, and ensuring compliance with the many regulatory requirements associated with investments by non-profits. Typically business investments require the approval of Mercy Corps' Board of Directors after full review by Mercy Corps' management. The *Joint Investment and Entity Formation* policy summarizes the agency policy on legal and internal review.

5. **FOUNDER:** Mercy Corps will occasionally make the choice to enter the market system formally and create a new private sector entity when there are no appropriate existing actors. Our goal is that by filling a market gap–taking on the role of business developer and incubator–we demonstrate viability to the private sector and build interest in this business.

Mercy Corps is usually an initial owner of private sector businesses we create and they usually start as unregistered businesses that were formally Mercy Corps programs. We may function as the sole owner, as a majority owner partnered with a group of minority investors, or as a minority owner with a minority ownership role. Most often, our goal is to transfer that ownership to an independent private sector body that will continue to support our pro-poor social goals over the long-term. Mercy Corps founded business are also social enterprises: firms with a goal to meet commercial success and at the same time meet defined social goals.

The most common Mercy Corps-founded businesses have been MFIs, and we have a long track record of establishing these businesses in support of our pro-poor programming. Another example of a social enterprise we founded is KeBAL in Indonesia, to test our concept of providing healthy food to children from food carts, and to develop a sustainable, scalable business model for that program. The structure of this firm is more complex due to Indonesian law which prevents Mercy Corps from having an ownership stake in a private business. This is a challenge we encounter often when creating new businesses.

The key underlying consideration to founding a business is that we only should create a new business when we cannot identify a valid, existing partner to fill that role. It may appear to be more innovative and more effective to

create a new entity, but the challenges associated with founding a business often outweigh the advantages of working with an established partner.

Key Challenge: Creating a Mercy Corps Business

Creating a new business is challenging for anyone, especially a multi-sectoral non-profit like Mercy Corps. Some challenges to watch out for include:

- Financial sustainability may be more difficult than anticipated. Our strategy may be inadequate or we may underestimate the time and resources required to achieve sustainability.
- We may lack adequate knowledge of business management and business culture; our non-profit orientation can make it harder to identify suitable for-profit solutions.
- We may start with incorrect market or program assumptions. Later, after increasing experience or knowledge, we may have potentially viable solutions but then lack sustained funding to test those alternatives.
- Our presence may influence or distort the market due to a perception that we are an international actor with "free" funds (for example, wages and working conditions may be different for an INGO than in a private firm). This dynamic may also make transferring the enterprise to an independent private business more difficult.
- Our presence may make other market actors less inclined to fill a potential new role or create a new product or service.
- Many businesses fail! We need to understand that private business is risky, even for those well founded on solid business plans and market research.
- There are often significant legal and regulatory restrictions in the countries where we work that prevent us from owning a local entity, or from mixing "business" and "social welfare." This means that even if we create a new private business, we may not be able to have control over that business as an owner typically would. This can create challenges not just for the entity we start but for other Mercy Corps programs in that country and therefore needs to be evaluated carefully and fully reviewed by our compliance and legal teams. Alternatives such as supporting existing private businesses should be aggressively explored and considered.

2.3. Private Sector Interests

The approach and level at which private sector firms engage with Mercy Corps depends upon their capabilities, incentives and resources. It is also dependent on their view towards pro-poor development, ranging from making support of the poor a core value, to a belief that helping the poor is a worthy secondary outcome of doing business. Recognizing this range of views helps Mercy Corps map private sector interests and identify private sector motivations. This is vital to preparing for, designing, and effectively managing PSE programs.

Within their core business model there are six primary strategic interests of the private sector that may motivate them to engage with Mercy Corps (or other development actors): **competitive advantage, new market opportunities, value chain upgrading, corporate social responsibility, mentoring and employee engagement, and business enabling environment reform.** These strategic interests are not mutually exclusive and some directly support others.

1. **COMPETITIVE ADVANTAGE**: Competitive advantage is defined as the ability a business has to outperform its rivals. It exists when a firm can deliver the same, or better, benefits (products or services) as their competitors but at lower cost or higher value. It also exists when a firm focuses on a segment or niche of their industry and then narrows its strategy to serve the needs of that particular group.

Competitive advantages arise from the firm maximizing its resources and capabilities, directly enhancing its ROI. Resources are assets the firm has and include such things as patents, proprietary knowledge, existing customers, reputation, employees or brand. Capabilities are the capacity to use those resources effectively. Gaining competitive advantage is a strong motivator for businesses to partner with Mercy Corps. Our programming can support competitive advantage in many ways including improving the workforce, providing access to technical resources and expertise, or facilitating new relationships in the market.

Competitive advantage may also be gained by demonstrating a commitment to the poor which then translates into a stronger brand or enhanced reputation. This is essentially a public relations activity and in some instances may be the key reason a firm engages with Mercy Corps. In that situation, their engagement and their accompanying

public relations helps position the firm more favorably in their particular industry. In many of these cases, there is also a CSR component (explained below) as the business' public relations supports its competitive advantage and is used to publicize CSR activities.

2. **NEW MARKET OPPORTUNITY:** The private sector may be motivated to engage in PSE programming to sell their products in an entirely new market. There are multiple variations of this, including selling an existing product in a new geography or developing an entirely new product. A new market opportunity does not include new avenues to source raw materials or obtain products for manufacturing or resale—those activities are better defined as value chain upgrading. A critical aspect of new market opportunity is a desire by the private sector to reach new consumers, including the poor (sometimes this population is referred to as the "bottom-of-the-pyramid").

One example of the private sector being motivated by new market opportunity is the SCHS program in Guatemala in which Farmacias de la Comunidad (FdeC), a national retail pharmacy chain is partnering with Mercy Corps to create a new micro-franchising channel to expand sales of their products into rural village health stores.

3. **VALUE CHAIN UPGRADING:** Value chain upgrading is a process whereby a firm seeks to increase their technological capacity and improve their market linkages within their value chain. Value chain upgrading is one of the most common motivators for the private sector as it relates directly to improved profitability and business expansion. There are four categories of value chain upgrading:[8]

- ***Process upgrading:*** An increase in production efficiency, resulting in greater output for the same level of inputs, or the same level of output for fewer inputs. An example of this might be a farmer adopting better irrigation techniques.
- ***Product upgrading:*** Qualitative improvement that makes products more desirable to the consumer. Examples of this might be a farmer adopting better food safety processes for fresh produce, or a weaver introducing new designs into his/her handicrafts.
- ***Functional upgrading:*** The entry of an enterprise into a new, higher value-added level in the value chain they already are in. An example of this might be a farmer who begins to partially process his commodity to get a higher price from traders.
- ***Channel upgrading:*** The entry of an enterprise into a channel that leads to a new, higher value-added end-market. An example might be avocado growers who decide to sell oil (higher-value than fruit) to a processing facility, or embroiderers who begin to produce materials to sell to high-end retail stores rather than local markets.

Many of these categories of value chain upgrading occur at the same time in a PSE program, sometimes with different actors. For example, the Alliances program in Georgia focuses on improving the small scale livestock sector through process, product and functional upgrading by working with farmers, traders, input suppliers, animal breeders, and business development firms, among others.

4. **CORPORATE SOCIAL RESPONSIBILITY (CSR):** CSR is "how companies manage their core business to add social, environmental and economic value in order to produce a positive sustainable impact for both society and for the business."[9] A firm's CSR efforts can contribute directly to poverty reduction, for example by contributing to inclusive economic growth through investment, employment, paying taxes, respecting labor standards, sourcing locally, providing workforce training, and producing products that meet the needs of the poor.[10] CSR efforts can also contribute indirectly to poverty reduction by providing funding or otherwise supporting community needs such as healthcare, health education, literacy and awareness of legal rights.

Because part of CSR is building economic value, it is highly related to competitive advantage. Companies demonstrate their position on CSR in a number of ways including:

- Making a charitable donation to a group that is engaged in programs that benefit society.
- Buying from or selling goods and services to a developing country at a fair price and with fair terms.
- Actively engaging in a partnership, beyond just providing funding, to serve the needs of the poor through targeted products or social programs.

8 USAID. *Lessons Learned on MSE Upgrading in Value Chains, USAID Synthesis Paper*
9 *Corporate Social Responsibility. Department for International Development (DFID), n.d*
10 *Corporate Social Responsibility. Department for International Development (DFID), n.d.*

The CHAI program in India is a strong example of CSR, in which Tazo/Starbucks are actively engaged to improve the health and education of the poor by funding a program to improve the quality of life in the region where they purchase tea.

Some amount of public relations (PR) typically accompanies a firm's CSR efforts. PR can be external, demonstrating to the firm's partners and the market their commitment to social values. PR can also be targeted internally so employees feel more connected to the mission of the company.

There is a movement towards a more strategic perspective on CSR and away from a CSR strategy that focuses on marketing or public relations, or just the company's charitable foundation. This aligns with a movement in government to support more strategic development partnerships with the private sector. From a business perspective, this strategy – often called 'shared value' – suggests that if a firm genuinely respects people and institutions, they will benefit from that policy with stakeholders more motivated to act on their behalf. Results of a shared value strategy includes having more repeat customers, and more supportive suppliers, lenders, investors and government institutions.

Triple Bottom Line

Connected to CSR is the concept of triple bottom line (TBL). TBL is the perspective that a firms sees its performance not just in financial terms (profits, losses, and ROI) but also in social and environmental aspects, considering the overall impact of the business' activities. The term TBL can be used to describe an overall approach of a company or a way to measure its impact that includes financial, social and environmental issues.

TBL as a form of reporting and measurement (similar to financial reporting) calculates the impact a business has in terms of social and environmental values along with financial returns. The financial bottom line of an enterprise can be relatively easily and objectively measured. However it is much more complex to measure the environmental and social bottom lines and it is a challenge to compare TBL calculations across firms and industries. Some firms articulate TBL as an organizational goal and a PSE with Mercy Corps can directly support achievement of that goal. When we engage with the private sector on issues of TBL, we must be aware that some firms have intensive monitoring and reporting needs to demonstrate their TBL results and the burden of that monitoring may fall to Mercy Corps.

5. **MENTORING OPPORTUNITIES AND EMPLOYEE ENGAGEMENT**: Private businesses may be motivated to partner with Mercy Corps to support their own employee development and motivation.

Mentoring/Volunteer Opportunity: A mentoring/volunteer program is one in which employees have the opportunity to get directly involved in a Mercy Corps program by giving their time to implement activities (such as drafting a business plan) or mentor program participants (such as coaching on staff management).

Employee Engagement: This is when a private firm engages with Mercy Corps to demonstrate their corporate values as a way to motivate employees. An example of employee engagement is the CHAI program in which Tazo/Starbucks benefits from the internal 'good will' generated by providing program updates in internal corporate communications and having Mercy Corps posters hanging on office walls.

Key Challenge: Business Volunteers and Mentors

Sometimes corporations offer employee volunteers to Mercy Corps. Before agreeing to an employee volunteer, it is important both sides understand each other's expectations and commitments. We are supportive of the concept of having employee volunteers because they could bring business-related skills we lack. However employee volunteers often want to implement tasks unrelated to primary skills, which may be less valuable and harder to manage. To effectively communicate expectations, be sure to create a detailed scope of work, similar to what we would do for a consultant. In addition, ensuring compliance around human resources and benefits issues is key.

6. **BUSINESS ENABLING ENVIRONMENT REFORM (BEE):** Business enabling environment reform (BEE) seeks to address problems, barriers, limitations and flaws in the business enabling environment with the goal of reducing the cost of doing business, reducing risks, increasing predictability/stability, developing markets, and increasing competition. It is those goals that motivate the private sector to engage in programs that have a BEE component. BEE in general terms is not necessarily pro-poor and has a greater emphasis on legal, regulatory and policy issues. However, there is recognition that the impact of an inefficient business environment is greater on the poor and other marginalized groups, and that it may reflect other inefficient policy environments in education, healthcare, environmental management and governance.

2.4. PSE Program Strategy

With an understanding of the *Mercy Corps Approach* and the *Private Sector Interests* that motivates a business to engage with us, we can then determine the most appropriate *Program Strategy* that supports Mercy Corps' objectives and the interests of private sector partners. Based on Mercy Corps' experience, there are four program strategies that match the interests of the private sector with the appropriate role for Mercy Corps: **improving a product/service, introducing a new product/service to the market, supporting employment and enterprise development, and reforming the business enabling environment**. These strategies enable the poor to increase their access to goods for consumer choice, new markets for their produce or labor, and basic services (health, water, education, sanitation) as well as an improved environment to conduct business. Fundamentally, and most importantly, all of these program strategies support Mercy Corps' goals.

Many PSE programs include more than one program strategy. When developing a PSE program, it is important to identify the gaps we want to address and based on those gaps determine the best program strategy. Common questions you might ask are:

- Who are we are trying to help and what is the context in which they live?
- What problems do individuals/ firms have?
- Why is the market system not providing solutions to these problems?
- Why is the market system not working for the poor?
- What type of outcome or systemic change in the market will most benefit the poor?
- What is the optimal program strategy to achieve that outcome?

1. **PRODUCT OR SERVICE IMPROVEMENT:** Many times we find that poor populations are not benefiting as much as they can from existing products or services. For example farmers do not know how to increase the quality of their produce to get a higher price from buyers. This strategy aims to strengthen the value chain of an existing product or service to provide greater benefit to the poor. To do this, Mercy Corps may act as a facilitator to analyze capacities and incentives of market stakeholders and create linkages that support improving a product. Alternatively we may directly provide technical or financial support. (See the Afghan Grape GDA and Georgia Alliances profiles for examples of strengthening the value chain at different levels to improve a product or service.)

Value Chain Strengthening and Market Development:

Value chain strengthening includes making improvements along the full range of activities required to bring a product from its conception to its end use. Market development includes strengthening a value chain, while also looking at supporting functions and the enabling environment. Market development focuses efforts on building the capacity and incentives of market stakeholders to create systemic change. So market development may include value chain strengthening but it may also go beyond a value chain. Alternatively market development may focus on one very specific element of a market while value chain development looks at the range of relationships in that chain. Making Markets Work for the Poor (M4P) is one articulation of a market development approach currently utilized by Mercy Corps.

2. **NEW PRODUCT OR MARKETPLACE ENTRY:** Sometimes we recognize that the poor are missing a useful product or service to make their lives better, for example access to healthy food for their children. In this case we will facilitate private sector entry into a new market by; introducing a new product or service; expanding to a new geography; targeting a new customer base for an existing product or service; or a combination of these. This may include the creation of a new private business that does any of the above.

In Haiti, Mercy Corps partnered with a micro-finance institute, Fonkoze, to introduce a new service: catastrophic micro-insurance through a pilot program. After customer awareness and product testing, the new product was deemed viable and a new multi-partner business entity was created, MICRO, for national roll-out. In Indonesia, the PUSH program developed new technologies and supported new business models to provide low-cost and environmentally friendly sanitation products, including septic tanks and sludge removal services, to urban slum communities with limited access to sanitation services. The Energy For All (E4A) program in Timor-Leste takes a market development approach to address energy poverty by helping suppliers of alternative energy products expand to new rural and peri-urban markets.

3. **EMPLOYMENT AND ENTERPRISE DEVELOPMENT:** Oftentimes Mercy Corps' goal is to create jobs and support development of new and existing MSMEs to increase incomes for the poor. This has obvious benefits for relevant private sector partners by increasing the availability of skilled employees, strengthening their supply chain through improved procurement from MSMEs, and/or improving markets for goods and services.

The Global Development Alliance for Strengthening Market Chains for Afghan Grapes and Pomegranates program worked to rehabilitate and improve post-harvest processing facilities. Similarly, the SCHS program created employment in new microfranchises that are affiliated with a national pharmacy chain and provides health products in rural Guatemalan villages.

4. **BUSINESS ENABLING ENVIRONMENT REFORM:** Although not very common, we have some instances where our program strategy is to drive reform and improvement of the business environment, including regulatory, infrastructure and financial reform. This is in recognition that a fair, competitive business environment is crucial to improving the situation of the poor and to developing effective program engagements with the private sector.

A supportive political environment is one of the requirements for using a BEE reform strategy. This was the environment in Mongolia where the MORE program is located. In that program, Mercy Corps is working with the government and the private sector to address government policy requirements and expand procurement to the private sector, thereby spurring economic development.

Programming Techniques Especially Relevant for PSE

Mercy Corps has significant experience in a number of program implementation strategies applicable to PSE.

Business Development Services (BDS) are the supporting services that improve the performance and sustainability of individual business. BDS build the capacity of individual companies to function better. These services include marketing support, training, consultancy, market information and information technology improvement. Ideally, BDS can be provided by private businesses and Mercy Corps often engages with BDS providers in PSE programs.

Financial Services such as microcredit, micro-insurance, mobile banking, savings, loan guarantees and remittances are a common strategy within PSE programming. We may partner with the private sector to create or expand financial institutions. Another approach Mercy Corps has taken is to create or support a wholesale banking institution to provide capital and other resources to MFIs as in Bank Andara, Indonesia. Mercy Corps has facilitated linking financial services through a financial institution to farmer groups, cooperatives and micro enterprises in remote areas of Nepal under the Spicing up the Deal (CaGi) program.

Microfranchising is a strategy in which small enterprises are created following a set of operations and marketing standards and linked to a parent or franchising company that typically supplies them with products or services. The goal is to pair program participants with a product or service that helps address a social or economic need of their community and provides them with a sustainable income source. Microfinance is often coupled to microfranchising to assist launching a micro-franchise. Mercy Corps has experience with microfranchising in the SCHS program in Guatemala that provides health products through a network of rural entrepreneurs, and in the KeBal program in Indonesia that produces healthy street food and distributes it through a retail franchise network.

3. Implementing Private Sector Engagement Programs

There are six stages to developing, managing, and implementing an effective PSE program. These make up the *PSE Engagement Model*. They are purposefully broad to support diverse contexts, program goals and types of private sector partners and are intended supplement the partnership framework articulated in the Local Partnerships Guide.

Six Stages of the PSE Engagement Model

These stages build on each other, but they may be done out of order or simultaneously. For example, if we start an engagement in preparation for an undefined future program, we may initially engage at a more informational and informal level starting with the *Context Analysis and Pre-Positioning* stage. However, if the partnership is in response to a specific RFA, then a deadline may dictate how we approach the private sector and we may initiate work with the *Partnership Development* stage or go straight to an *Engagement Agreement*. Regardless, there is always great value in the foundational work of the earlier stages for any successful engagement.

A number of tools and tip sheets are appropriate for each stage of the *PSE Engagement Model*. Each of these is described in the sections that follow. There is a cross-reference table for all the tools and tip sheets on page 33.

3.1. Context Analysis and Pre-Positioning

To build a strong engagement with the private sector, first we must understand the relationship of the private sector to our agency goals. With that, we can begin to develop a map of the private sector to identify the key private sector actors operating in a specific geographic area and business sector, determine how they relate to each other, and build initial relationships with those actors. Ideally field teams conduct this as an ongoing activity, not only in response to a RFA or specific program opportunity.

Connect PSE to Mercy Corps' Goals: As was discussed in Chapter 2, you must first understand how private sector engagement fits with our overall Mercy Corps approach, and how it supports the agency's country and sectoral goals. Understanding this connection will help you communicate to your team and to your partners, including those in the private sector, the importance and opportunity for partnering with firms.

To do this, familiarize yourself with a few key concepts and documents. The Vision for Change is a good place to start as it places the private sector in a key role in supporting our mission alongside the government and the public sector. Our Principles of Partnership recognize the role of partnerships in support of our development goals and frame a baseline approach towards all partnerships. The Market-Driven Development Principles articulate our approach to being market driven which includes a significant role for private sector partnerships. Finally, the Strategic Guidelines for PSE (outlined in Chapter 2.1) reveals crucial attributes that are unique or predominant in these types of relationships and reminds us about characteristics and challenges found in PSE programs.

The **Principles of Partnership** tip sheet, the **Market-Driven Development Principles** tip sheet, and the **Strategic Guidelines for PSE** tip sheet all connect PSE to our Mission.

Map the Private Sector: The next step is to build an understanding about who the important private sector actors are and how they relate to their geographic, political and social environment. It also includes relating the private sector to our country and sectoral strategies. Mapping the private sector is an on-going process and it typically starts small with a few key interviews focused on specific sectors, and then expands over time. Good mapping will help you build the contextual perspective that supports strong engagement with the private sector. This includes understanding the expertise, influence and aspirations of individual businesses, and how they relate to other private actors and other sectors.

The **Business Sector Scan** tool, **Firm Identification** tool, and **Enabling Environment** tool help map the relevant public and private sector environment.

The **Due Diligence** tool helps structure the research into the risks and compatibility of a potential private partner.

Build Initial Relationships and Investigate Opportunities: Once you have started mapping the private sector, you can identify a few initial key private sector actors with whom to build strategic connections. At this stage these connections are unlikely to be built around a specific program partnership; we may understand a need but not the nature of a partnership to support that need. A good approach is to carefully consider how private sector interests overlap with Mercy Corps' goals and establish a relationship on common interests. Once a relationship is established we can investigate options for future programming. There are also instances in which we already have very specific program direction and funding (for instance in response to a natural disaster). In that circumstance, we might simultaneously build relationships and explore programming partnerships in detail.

- The **Investigating Interests and Incentives** tool helps assess what will motivate a specific private sector actor to engage in a program.
- The **Building Connections** tip sheet outlines how to start and strengthen a PSE partnership.
- The **How to Interact** and **How to Talk** with the private sector tip sheets are useful when considering how to approach and communicate with a private sector actor.
- The **Engaging with an MNC** tip sheet is a collection of best practices and tips for partnerships with multi-national corporation (MNC) involvement.

3.2. Assessing a Specific PSE Opportunity

A private sector engagement is initiated by release of an RFA, an opportunity identified by Mercy Corps' field or headquarters, the private sector itself, or a combination of these. Regardless as to where it comes from, once a *specific programing engagement* has been proposed the first step is to ensure we are familiar with how private sector engagement supports our agency goals, and how it fits with our goals and programming in that country or sector (discussed in 3.1 above). We can then identify different Mercy Corps approaches we might take to support that PSE program, explore what might motivate the private sector to partner with us, and examine the different program strategies that fit this opportunity.

Mercy Corps Approach: With an understanding of the strategic fit you can evaluate the different approaches Mercy Corps might take and find the one that fits best with the program objectives. A facilitation role is preferred given our agency orientation to market-driven development. However, depending upon the circumstances, Mercy Corps may adopt other approaches in addition to facilitation. We recognize there are limitations and challenges to our approach and these are reviewed in detail in Mercy Corps Approach (Chapter 2.2).

- The **Facilitation** tip sheet summarizes the most relevant tips related to a facilitation role.

Private Sector Interests: The next step is to understand the interests of our potential private sector partners. We recognize that their baseline interest is typically related to profitability, but they also may share our social or development goals. Understanding what motivates the private sector helps determine the best engagement strategy. Private Sector Interest (Chapter 2.3) reviews the motivators that drive businesses to partner with us.

- The **Investigating Interests and Incentives** tool helps assess what will motivate a specific private sector actor to engage in a program.

Program Strategies: Once we have insight into what approach we might take and what motivates the private sector in this context, we can determine the most appropriate program strategy. There are four program strategies applicable to PSE programs. These include improving a product or service, bringing a new product or service to the marketplace, supporting employment and enterprise development, and reforming the business enabling environment. The Program Strategy section (Chapter. 2.4) has more detail on these four strategies.

3.3. Partner Assessment

A strong engagement is built on having a well-matched private sector partner. There is a sequence of activities to help assess this match, with each activity narrowing our focus and reducing the number of potential private sector partners. The first activity is to understand what type of partner is appropriate, given the program context. With that understanding we should evaluate their feasibility and compatibility to our mission including conducting due diligence. If a firm meets our feasibility screen, we should review its business model as it relates to our engagement. Finally we should assess what incentives will encourage a business to engage with us. It is important to consider how collaboration between multiple private sector partners might work, given the competitive orientation of business. This includes understanding

if the firms already collaborate or have existing relationships. After following these steps you should be able to select the best private partner(s) to work with.

The **Key Challenges** tip sheet helps identify and avoid the most common pitfalls and critical issues that arise when engaging with the private sector at a program level.

Partner Types and General Considerations: The first step in selecting the best partner(s) is to understand the different types of potential private partners. These range from MSMEs (micro, small and medium enterprises) to MNCs (multi-national corporations) and include business groups and co-ops. Types of Private Sector Partners (Chapter 1.3) reviews the types of partners.

In addition to the general type of partner, other factors should be considered when evaluating partner options such as budget and timeframe. Oftentimes there are market constraints, such as political or geographic issues, that determine who is a viable partner. For instance, there may be a limited number of businesses with appropriate skills or incentives in the target geographic area.

The **Firm Identification** tool is used to identify specific firms working in the target sectors/areas and assess them based on core criteria.

The **Business Enabling Environment** tool develops a structured environmental scan, captures key policy and contextual information to help identify strong potential partners.

The **Working with Co-Ops/Business Groups** tip sheet explains the advantages and disadvantages of working with existing co-ops/groups or forming new ones.

Public-Private Partnerships (PPP)

There are instances in which Mercy Corps actively engages with the public sector in a PSE program, often referred to as public-private partnerships (PPP). The private sector is a crucial source of innovation, efficiency and employment, and governments have an important role in developing supporting functions and institutions that bolster markets and market development. An appropriate government role is to develop supportive structures, infrastructure and policies that permit fair opportunities for the private sector. A government supports markets by delivering key public services, promoting standards and competition and ensuring regulation that provides access and benefit to all segments of the population. There is also a recognition that government strategies and donor requirements often directly call for PPP in support of economic development and a strengthened private sector.

In many circumstances, PPPs are tri-partite and involve Mercy Corps facilitating dialogue and relationships between the private and the public sectors. This can be quite complex and requires a clear understanding of the political, social and cultural context such that appropriate incentives can be considered for all parties. One example that shows a good understanding of incentives for the public sector is in the Palyja program in Indonesia, where Mercy Corps helped the state-owned water company expand piped water services to Jakarta slums. This increased revenue for the company and enabled the local government to demonstrate to residents that it was providing needed basic services. An effective public-private dialogue (PPD) is a crucial step to engaging effectively in a tri-partite partnership. This kind of dialogue can be formal or informal and take place at all levels of government.

There are a number of challenges related to engaging the public sector in a PSE program. One issue is while a policy supporting market development may be articulated at a national level, adoption of the policy at a local level can be challenging due to budgetary, political, social or cultural factors. This was the situation with the MORE program in Mongolia in which local government officials were hesitant to expand procurement to the private sector in spite it being a well-defined national policy. In other cases, national policies may block or be unsupportive of local economic development activities. Finally, changes in elected government will often lead to shifts in priorities as newly elected officials may have greater or lesser interest in PPP and PSE programs. The Mercy Corps' Guide to Good Governance Programming is a great resource for designing, planning and implementing programs that involve a government partnership.

Feasibility Analysis: Once we have selected a potential private partner or set of partners we can assess whether they would be a good fit for our program requirements through a feasibility analysis. Feasibility is defined as the likelihood that that the specific engagement will meet the program goals. If we identify threats to meeting program goals, feasibility analysis can help reveal steps that can be taken to minimize the threats.

Feasibility is not static. Sometimes an engagement may seem infeasible at the start but may be possible after the context changes or relationships are built. We need to be aware that changes to the program goals and activities, the external environment, or the focus or structure of a private partner may also impact feasibility. Assessing feasibility is crucial at this engagement stage, and a scan for feasibility should be an ongoing activity whenever the context changes.

Another important aspect of feasibility is due diligence. It is important that our partner choice is compatible with our mission and goals, and will not damage our reputation or create risks for our staff. We need to ensure that we choose private sector partners who will abide with recognized human rights, social and environmental standards.

- The **Feasibility Analysis** tool evaluates a potential PSE relationship for feasibility on the administrative, financial, technical, market, legal, political, and ethical/social levels.
- The **Reviewing Financial Information** tip sheet helps assess the financial stability and operational controls of a potential private partner.
- The **Due Diligence Assessment** tool helps structure the research into the risks and compatibility of a potential private partner.

Key Challenge: Inadequate Partner Options

Our preference in a PSE program would be to partner with one or several well-functioning firms. However, there are situations when this is not possible, typically due to the lack of viable partners, which is common in fragile or conflict-affected environments. In these circumstances, Mercy Corps may work with fewer or less sophisticated partners, may invest in building the capacity of existing entities, may narrow the scope of our program goals, or may establish a new business either independently or in partnership with other actors.

Business Models: Once we have determined a firm meets our feasibility and due diligence standard, the next step is to understand their business model. This can be a significant effort because of the time it can take to build trust with the private firm prior to them revealing meaningful information about their business model. We may need to independently do detailed market and business research to understand and assess a potential partner's business model, and their strength and profitability. Therefore, we should only move to this step for a small number of firms that are most promising for the specific engagement.

Understanding a firm's business model is a critical step in assessing whether they could be a good PSE partner as it helps determine whether they fundamentally can handle the goals of our program. A business model describes the core aspects of a firm including their products, strategies, infrastructure, organizational structure and operations. It seeks to explain the value that the business creates and why customers and the market support that business.

A business model differs from a business plan which is a more tactical view on how a firm operates including among other things details about their financials, operations, marketing, management, competition, and business environment.

Ideally we could also review a potential partner's business plan and incorporate our PSE into their plan. However, because business plans reveal quite a bit about a business and what they might consider their strategic advantage, we should not assume a firm will simply hand over or describe their business plan in detail to us. If they are a MNC or a national company they likely will not share that with us due to proprietary concerns, and a MSME may not have an articulated business plan at all. In the latter case, we may work with them to develop a business plan as part of our program implementation. (See Developing a Business Plan in Chapter 3.6)

- The **Building Connections** tip sheet has good tips on starting and maintaining a PSE relationship which is vital toward understanding their business model.

Appearances Matter

How we dress and interact influences how we are perceived by our potential private sector partners. Conducting ourselves professionally and respectfully can go a long way towards building trust and gaining the confidence of partners. That may mean getting dressed up to visit a private firm as if you were going to a donor meeting!

Private Sector Interests and Incentives: An effective PSE program must integrate a private sector partner's true interests in the program design. Once we have identified a potential partner or partners, we can explore what will motivate them to partner with us. Finding the right incentives for a specific private sector partner is a complex undertaking. First try to understand a company's current interests and then ask whether those interests overlap with our program goals. Then, consider what additional incentives are needed to get the partner's support and cooperation. This process is different for every situation (and partner) so an on-going interest/incentive assessment is required for each new partner and each time a partner's role or activities change significantly. See Private Sector Interests (Chapter 2.3) for an overview of the types of incentives that motivate private partners.

- The **Investigating Interests and Incentives** tool helps assess what will motivate a specific company to engage in a program.

Key Challenge: Difficulty in Understanding Interests and Using Appropriate Incentives

The interests of different actors engaged in a PSE program may not match or may be difficult to understand. It is important we assess the interests for all actors early and frequently. Without a clear understanding of interests, determining the right incentives is considerably more challenging. We have also experienced situations when there is a misunderstanding about interests within a single private sector partner, sometimes between a MNC headquarters and their in-country subsidiary.

3.4. Partnership Development

Once we have selected a partner, the next step is to develop an effective engagement plan that supports our program goals and fulfills our partners' needs. This includes developing relationships with partners to better understand their interests. It involves building up the credibility of Mercy Corps and showing what we bring to a partnership and jointly mapping our goals to demonstrate how a partnership can meet objectives for all sides.

Developing Relationships: This is the most crucial aspect of partnership development. A high level of trust is the foundation of all partnerships and is even more important in a cross-sectoral relationship between an NGO and a company where we may not speak the same language or have the same primary goals.

We develop respect and trust by educating ourselves about the specific details of an enterprise or industry, by engaging at the right level (seniority) of both organizations, and by showing that we understand how a firm operates and demonstrating those qualities when appropriate. All this is supported by communicating in a manner that reflects an understanding of the private sector.

- The **How to Talk** tip sheet is useful for communicating with the private sector and the **How to Interact** tip sheet contains a set of guidelines to improve interactions with private businesses.
- The **Building Connections** tip sheet has good tips on starting and maintaining a PSE relationship.
- The **Making Presentations** tip sheet helps construct and deliver effective presentations to business partners, including how they differ from presentations to other sectors.
- The **Understanding Business Plan** tip sheet explains the elements of business plans, including how to read, interpret and draft plans that are appropriate for PSE programs.

Key Challenge: Communication Styles

One challenge to building a relationship is that Mercy Corps staff and the private sector might speak different languages - NGO vocabulary versus business vocabulary. Addressing this requires a constant and conscious focus on communication and understanding. Similarly, we often do not have a for-profit mindset on our teams. Obtaining a baseline understanding of the goals, motivations and challenges of the private sector helps avoid miscommunication. Having Mercy Corps staff with previous private sector experience can be very valuable to developing and managing private sector relationships.

Establishing Mercy Corps Credibility: One reason the private sector engages with Mercy Corps is because of specific benefits we bring to the relationship. These attributes lower business risk, improve social credibility, and increase the likelihood of a successful, sustainable outcome. We should remember those attributes and emphasize them in our communication with the private sector not only when we are building relationships but in all our interactions. Doing so builds our credibility and directly supports a successful partnership. Some key areas of Mercy Corps' capacity that demonstrate our credibility are:

- Human capital: We bring our staff and development experience to a program in the form of facilitation and technical skills, program design, program management and results measurement.
- Local understanding: We usually have extensive experience working in communities, have connections to local government officials and CSOs, and can leverage that understanding and those relationships on behalf of a private sector partner. This is especially relevant when that partner is a MNC but also applies when a local company wants to expand to serve poor communities.
- Pro-poor focus: Demonstrated by our Vision for Change, we understand the needs of the poor and can help the private sector access this possibly untapped set of producers, laborers and consumers.
- Entrepreneurial focus: We approach our work with an entrepreneurial lens, focused on guiding communities to organize for change, tailoring solutions to specific contexts, engaging partners, and striving for sustainable and scalable solutions that extend the influence of our programs.
- Social credibility: For companies that want to ensure they have a social or environmental focus to their activities (such as a social enterprise), we can bring an understanding of how to achieve that, how to incorporate the right systems and procedures to maintain the social focus, and the credibility to ensure other investors/stakeholders that the social focus is legitimate.
- Funding resources: We may be able to bring funds to a program or provide funding when private sector funding has too many conditions or is non-existent.

Program Design is Crucial for Credibility

We have observed that strong program designs are critical ways in which Mercy Corps communicates to the private sector that we take a rational, feasible, efficient, and sustainable approach to our pro-poor development work.

Mapping Goals: At this point we should make sure we are in agreement with our partner about our development goals and their strategic interests to ensure that the intended engagement leads to a win-win outcome. We should jointly map our goals and identify overlap with our selected private sector partner. From this process, we should identify our common goal for the program and engagement – and ensure that it is incorporated into the program design. While this may be done at many stages in the engagement process, it is valuable to jointly revisit this on a regular basis. Doing so will reinforce mutual trust, strengthen our relationship and avoid misunderstandings that may arise in later stages and during program implementation. Reviewing Private Sector Interest (Chapter 2.3), the Mercy Corps Approach (Chapter 2.2) and Key PSE Attributes (Chapter 1.4) will support mapping joint goals.

The **Investigating Interest and Incentives** tool helps assess what will motivate a specific private sector actor to engage in a program.

The **Stakeholder Analysis** tool identifies key stakeholders, recognizes their connection to the program, evaluates their influence and interest, and develops strategies for keeping them engaged.

Developing a Business Model: Constructing a business model for our engagement is an important step to building a successful PSE program because it articulates the value we will create, and outlines the general roles and responsibilities for key partners. That model should strongly consider the *Strategic Guidelines for PSE* programs, especially scalability as that directly impacts profitability, which is often (but not always) a key firm's goal. (See Strategic Guidelines (Chapter 2.1) for more detail). It is important to recognize that virtually all engagements with firms exist in a market context and need to be competitive, and this should be incorporated in the business model and designed into a program. Finally, it may be necessary to test multiple business models to determine which will be most effective for a specific market-access or value-chain problem that the PSE program is attempting to solve. If we are creating new business models this step should ensure they are supported by a solid business plan. (See Developing a Business Plan in Chapter 3.6.)

A business model differs from a program logframe as it focuses more strategically on how the business will be successful and the impact of the external environment on the business. This contrasts with a logframe that focuses more tactically on the program goal and the supporting activities and outputs necessary to achieve that goal.

3.5. Engagement Agreement

Once we map our goals and agree to work with a private sector partner, we need to make our relationship official. This involves negotiating the terms of our partnership, and then signing a memorandum of understanding (MOU) that guides the engagement going forward.

Negotiation: Once we have established a general commitment to work with a partner we must negotiate the specific terms of our engagement and the way we will work together. The goal of this negotiation is to clarify our engagement which will be documented in an MOU. (See the section below on MOUs for a list of the components that might be part of our negotiation.)

Profitability is almost always a central goal for our PSE partner. They may also have other goals such as maintaining good relations with the community, minimizing their impact on the environment or contributing to stability in the area. So while companies may be willing to negotiate partnerships that meet a wide range of interests beyond profit, the motivation for maximizing ROI typically drives them to negotiate for the most favorable terms possible.

At the same time, the private sector may engage in interest-based negotiation, which is focused on understanding the interests of all parties so that they can be met in a complementary way. If so, we should negotiate in the same manner, with a focus on getting the best terms supported by achieving mutual benefit. Doing so will enable us to come to a more balanced agreement and puts our relationship on an even basis, supporting a more equitable partnership down the road. We should remember that the private sector needs to earn a profit and not expect them to engage in activities that negatively affect their bottom line, or at least lead to a positive outcome as soon as possible.

The **Negotiation with the Private Sector** tip sheet includes a set of important issues to consider for a successful negotiation.

For ideas on how to structure an effective private sector engagement, which affects the content of a negotiation with a potential private sector partner, review Chapter 1 and 2 of the toolkit. In particular, some helpful sections include Key PSE Attributes (Chapter 1.4) and Private Sector Interest (Chapter 2.3). Some highlights to remember in your negotiation are:

- Focus on Pilots: Private businesses are likely to engage in pilots and recognize pilots as an opportunity to develop skills and capabilities at relatively low cost, understanding that failure does not mean there is no business opportunity.[11] Piloting is also good for us because once the viability of a program or entity is demonstrated, the private sector will be more likely to take ownership and responsibility at their own expense.
- Measurable and Scalable Investment: Private sector partners may be looking for Mercy Corps to build programs around investment in ways that are measurable and scalable. They may also be looking for programs that build capacity and catalyze increasing involvement of local capital and local business.

Leave the Door Open

Typically we have to negotiate very hard to get a good fit and find win-win outcomes. Sometimes the negotiation does not end in an agreement, and we simply have to recognize our differences. However, as circumstances change, we should be able to 'leave the door open' to re-enter into negotiation with the same partner.

11 *Revisiting Value Chain Initiatives,* William Davidson Institute. 2010

- Partnership Structure: It is valuable to structure PSEs and especially those with MNCs more like business deals. This includes making sure the right people are at the table, and setting goals that deliver adequate and measurable ROI including making a difference to local communities and meeting the goals of the MNC or private partner.
- Joint Investment: The firm we are partnering with will likely want to know what we are contributing to the engagement including such things as resources, expertise, connections and funds.

The **Negotiation with the Private Sector** tip sheet has good negotiating advice. The **How to Interact** and the **How to Talk** tip sheets also support effective negotiating.

Key Challenge: Program Funding – Funding Cycles and Sub-Grants

Mercy Corps' standard process is to assess an opportunity, identify partners, apply for funding and then implement a program. The private sector does not always understand this process and the time it takes to obtain funding. The private sector may want to move quickly once they have made a decision to partner; however Mercy Corps often needs to obtain funding after that partnership is developed, which may take time and lack certainty.

On the MNC side, there may be funding challenges between a private sector partner in-country and their MNC headquarters. There may be a lack of coordination between the office that must provide the funding and the branch office that will engage in the partnership.

Given donor regulations, there are challenges surrounding sub-grants and investments to for-profit organizations. Some donors have rules against giving grants to for-profit entities and/or they block Mercy Corps from earning income from donor funds. There are also very strict compliance requirements about making investments in for-profit companies and private businesses. Giving sub-grants to, and making investments in, the private sector needs to be evaluated carefully and must be reviewed by Mercy Corps' internal Compliance and Legal Departments.

Refer to the **Smart Subsidies and Financing** tip sheet for guidance about making investments or grants to the private sector.

MoU Development: A MoU is a partnering agreement that documents the terms under which the partners will work together. Developing a MoU is a critical step of the engagement process as it documents expectations and program activities and provides mechanisms to deal with potential conflicts. MoUs that are collaboratively created strengthen our working relationship and reveal disconnects between partners that can be addressed before the program begins.

An MoU with a private sector partner can take many forms, depending upon the nature of the engagement and the program context, but they all feature some common components:

- Purpose: description of the engagement's strategic objective.
- Scope of Work: outlines the overall tasks necessary to achieve the purpose.
- Rights and Obligations: summarizes the responsibilities each party has in the engagement for the completion of those tasks.
- Term: spells out the engagement length including provisions for extension and cancellation.
- Payment: outlines any commercial terms of the engagement, including funding for various activities, ownership stakes of entities, distribution of profits, and coverage of losses.
- Reporting and Communication: articulates the expectations on both sides for the content and frequency of formal reporting and informal communication.
- Key Contact Information: identifies the key stakeholders in Mercy Corps and our partner organization with responsibility for the engagement.
- Cancellation: outlines the conditions and implications under which one party can cancel the agreement.

A MoU with the private sector almost always includes a confidentiality requirement. This can be a very important issue for firms due to concerns about their business secrets and the impact to their business if those secrets are revealed to their competition. As such, it is often a requirement to have in place a non-disclosure agreement (a MoU focused on strict confidentiality), prior to having a meaningful partnership conversation.

The Cycle 3: Structuring and Managing Collaboration with Lead Firms produced by Action for Enterprise has a good overview of developing and negotiating MoUs between NGOs and the private sector. The Mercy Corps Compliance and Legal Departments are sources of guidance on developing an MoU and should be consulted whenever a new MoU is being developed. They must review any MoUs before they are finalized.

The **Understanding MoUs** tip sheet helps develop effective MoUs and includes relevant samples and templates.

3.6. Ongoing Management

Once an MOU is signed, there are a number of important ongoing aspects to managing a PSE. Many of these are similar to managing other types of partnerships and the Local Partnership Guide (Phase 3 and Phase 4 of the Local Partnerships Framework) provides a good review of things to remember. Some specific issues that should be highlighted when managing a PSE program are the high level of continued engagement, development of business plans, awareness of communication and reporting needs, and attention to M&E considerations.

The **Principles of Partnership** tip sheets includes a summary of the ten key principles that guide all partnerships.

Continued Engagement: We often encounter problems with PSE programs after the MOU is signed. It is at this point when we move from talking about partnership to the reality of working together that differences may appear. Challenges often arise due to shifting expectations, implementation issues, and differences in organizational culture. The best way to prepare for and address these issues is to have a high level of proactive partnership management. This can be done through such things as creation of defined partnership governance structures, clear communication focal points and schedules, well-defined partnership leadership, and regular partnership health checks. The Local Partnership Guide (section 3.4) has a good description of general partnership management considerations that are applicable for private sector engagements as well.

Developing a Business Plan: A business plan is a detailed document describing how a company's business model (or in our case a private sector engagement) will be achieved. Typically it has an outward and an inward focus. The outward focus includes among other things a business environment scan, a competitive analysis and a market analysis. The inward focus is concerned with a firms' production, operations, marketing, financial planning, management and other organizational functions.

At this point, it is important you assess our private partner's business plan is as it relates to our program. If we are starting a new business this may entail developing a (joint) business plan to help determine feasibility. It is important to recognize that assessing or developing business plans may pose particular challenges as business planning requires technical expertise and an understanding of the private sector and industry context.

The **Understanding Business Plan** tip sheet can help you understand the elements of business plans including how to read, interpret and draft plans that are appropriate for PSE programs.

! **Forward Planning is not only for PSE programs**

Many Mercy Corps programs have forward planning documents that are similar to business plans and may include sustainability models. An important difference is that PSE program business plans must be targeted towards financial profitability and include market and competitive analysis, which may make the business planning process significantly more detailed and complex. Well-developed business plans are vital to the success of a PSE program. A great example is the plan developed for the KeBal program in Indonesia. For this business plan, Mercy Corps enlisted business school interns from MIT to study the pilot program and develop a comprehensive plan.

Communication and Reporting: Program reporting to private sector partners may be different than with other partners or programs. The private sector may have particular uses for reporting or may have more interest in specific elements of a program. For example, the private sector may want our reporting to be more focused on qualitative impacts and less focused on data, emphasizing participant stories and pictures, or they may want reporting produced at very specific intervals.

Communicating and reporting are program-specific and tailored to the needs of our partners as well as our program management and donor requirements. Effective reporting requires that we accurately assess these needs and incorporate them into our workplan and program management. Actively managing communication and reporting supports a stronger ongoing relationship.

Private sector partners and especially MNCs may have marketing or political priorities that lead to sensitivity about use of their name. In some circumstances, they may want us to identify them or use their logo in public communication; other times they may want to remain anonymous. Understanding which is appropriate may be challenging and dependent on the context. The best approach is to include expectations about communications in the partnership MoU.

Market distortion is also a consideration. It is possible that publicizing the name or the logo of a private sector partner, particularly a MNC, may have unintended impacts on the market or the community where the program is being implemented. Distortions include an expectation that prices may be lower or compensation may be higher due to the perception that the private partner has significant resources.

The **Communicating About PSE Programs** tip sheet has useful guidelines including tips on using the name, logo or other branding that identifies a private sector partner.

Key Challenge: Ongoing Relationship Management

Once into program implementation, we have seen misunderstandings arise between Mercy Corps and our private sector partners on how to achieve the program goals reflected in the program design. This can lead to both sides falling back into biased positions that get in the way of the productive, open communication that is necessary to resolve misunderstandings.

Challenges can come from different levels of organizational capacity and experience at a private partner or within Mercy Corps, including such things as management leadership, or staff, technical or teamwork capacities. This can be more challenging if we have multiple private partners that are at different stages of organizational development.

Challenges also arise from internal organizational issues with private sector partners. Changes in the partner's priorities can change their level of interest in the program or how they see the program fitting with their corporate strategies. A good example of this was the Indonesia program to produce and market bio-mass stoves, in which a change in focus at our private partner led to the cancellation of a program when it was in the design and development phase.

We recognize that private partners may require a close connection with the program they support to satisfy corporate oversight or CSR requirements, or meet value chain demands such as fair trade certification, and we recognize that relationship management challenges may arise in those situations. Additionally, in some circumstances the private sector partner may want to have an active role in program design or management which can lead to a range of challenges, depending upon the circumstances.

The **Key Challenges** tip sheet identifies the most common pitfalls and critical issues in PSE and has suggestions on how to avoid them.

Monitoring and Evaluation: Monitoring and evaluation of programs with a significant PSE component may require different elements or emphasis, due to the specific program goals the private sector has and the phasing of a PSE program.

- Evaluation timing needs to be carefully considered. Evaluations that are too early may misrepresent program progress, particularly if the program is a pilot and design changes are anticipated. If the program has a significant facilitation element that requires capacity to be developed before measurable outcomes can be observed, early evaluations will not demonstrate adequate outcomes or impact.

- Different types of measures may be required for PSE programs to reflect the goals of the private sector as well as the phase of the program. Private sector partners may also have a different need for information preferring "story-telling" - shorter but more accessible reports on a more frequent schedule - compared to longer quarterly or annual technical reports that government donors typically require.
- Impact to non-participants may have greater importance if it demonstrates a financial or reputational benefit to the private sector partner and should be measured whenever possible in a PSE program. A good example of this is the Spicing up the Deal (CaGi) program in Nepal, in which non-participating ginger farmers learned and incorporated advanced agriculture techniques from their neighbors who were part of the CaGi program. These non-participant farmers were then able to improve their crops and gain more income from the local ginger value chain.

PSE programs should also conduct ongoing or periodic due diligence evaluations to ensure there have been no changes in our partner's behavior or the external environment that increase the risk we face as part of our ongoing relationship with a firm.

The **Due Diligence Assessment** tool can help structure research into potential new risks of a private partner with whom we are already engaged.

It is important to measure the success of the engagement: Do we have a good relationship? What is working well and what could be improved? Are we meeting our agreed-upon goals? The best way to asses this is to conduct regular "health checks." Health checks can take different forms depending upon the type of relationship, from formal assessments and interviews, to informal check-ins at senior levels of the partner organizations. Ideally, health checks are scheduled in advance, enabling all parties to be prepared, and include an analysis and feedback process.

The **Relationship Assessment** Tool gauges what kind of "health check" is appropriate and whether we are on track with a private partner.

Photo: Thatcher Cook for Mercy Corps, Indonesia, 2009

3.7. Engagement Stages and Supporting Tools and Tip Sheets

The table below maps each tool and tip sheet to the engagement stage(s) it best supports.

	ENGAGEMENT STAGE					
TOOLS	Context Analysis	Assessing a Specific PSE Opportunity	Partner Assessment	Partnership Development	Engagement Agreement	Ongoing Management
Business Sector Scan	●					
Firm Identification	●	●	●			
Business Enabling Environment	●		●			
Due Diligence	●		●			●
Investigating Interests and Incentives	●	●	●	●		
Feasibility Assessment			●			
Stakeholder Analysis				●		
Relationship Assessment						●
TIP SHEETS						
Market-Driven Development Principles	●	●				
Strategic Guidelines for PSE	●	●			●	
Mercy Corps Principles of Partnership	●	●				●
How to Talk	●			●	●	
How to Interact	●			●	●	
How to Engage with MNCs	●					
Building Connections with the Private Sector	●		●	●		
Facilitation Tip Sheet		●				
Reviewing Financial Information			●			
Working with Co-ops & Business Groups			●			
Understanding Business Plans			●	●		●
Key Challenges with PSE			●			●
Making Presentations				●		
Negotiation with the Private Sector					●	
Smart Subsidies and Financing					●	
Understanding MoUs					●	
Communication about PSE Programs						●

4. Implementation Experience

Following are program profiles of nine Mercy Corps programs with noteworthy elements of PSE. Each profile describes the private sector's role and reviews key lessons learned and implications for future interventions.[12]

The programs are assessed by the 21 strategic attributes discussed in Chapter 2 illustrated in the *PSE Strategic Framework* (pg. 14). The programs that best demonstrate those attributes are identified with a bullet in the table below.

	GDA for Strengthening Market Chains for Grapes and Pomegranates, Afghanistan	Market Alliances Against Poverty (ALLIANCES), Georgia	BPI Globe Inc. (BanKO), Philippines	Spicing up the Deal: Cardamom and Ginger (CaGi), Nepal	Innovative Market Alliance for Rural Entrepreneurs (IMARE), Guatemala	My Child's Café Food Cart Program (KeBAL), Indonesia	Market Opportunities for Rural Entrepreneurs (MORE), Mongolia	Program of Urban Sanitation and Hygiene Promotion (PUSH), Indonesia	Sustainable Community Health Store (SCHS), Guatemala
Strategic Guidelines (Chapter 2.1)									
Incentives	●	●		●	●	●		●	
Balance					●	●		●	●
Relationships		●	●				●		
Flexibility		●	●						●
Scalability			●			●			●
Collaboration				●	●		●	●	
Mercy Corps Approach (Chapter 2.2)									
Facilitator	●	●		●			●	●	
Technical Support Provider			●	●	●	●		●	●
Funder			●				●	●	●
Investor						●			
Founder						●			
Private Sector Interests (Chapter 2.3)									
Competitive Advantage					●				●
New Market Opportunity		●	●	●		●		●	●
Value Chain Upgrading	●	●		●			●		
Corporate Social Responsibility (CSR)					●				
Mentoring and Employee Engagement						●			
Business Enabling Environment (BEE) Reform							●		
Program Strategy (Chapter 2.4)									
Product or Service Improvement	●	●		●	●		●		
New Product or Marketplace Entry			●			●		●	●
Employment/Enterprise Development	●				●	●	●		●
Business Enabling Environment Reform				●					

12 Many of these programs are ongoing and we continue to expand our learning regarding PSE. Please refer to the digital library for updated lessons learned and the most up-to-date versions of these program profiles.

Private Sector Engagement Toolkit – Program Profile: Profile Date: January 2012

4.1. GDA for Strengthening Market Chains for Afghan Grapes and Pomegranates[13]

Key Project Details:

Budget: $ 2.1 million (plus more than $2.1 million in leverage from other sources)

Dates: May 2008 – October 2011

Program Goal: Increase capacity, jobs and sales for Afghan participants in the grape and pomegranate value chains, by meeting domestic, regional and international product quality standards.

Objectives: To increase sales of higher value grape products by 20% during the program lifetime.

Constraints Analysis:

Small-scale Afghan farmers and processors who were able to export to international fruit and nut markets 20 years ago are no longer able to ship to those same end markets. This is primarily due to civil and international strife which ripped apart market networks as well as poor practices along the value chain. These include a lack of skills and knowledge on improved production practices, such as crop, water and pest management; low capacity, equipment and facilities for on and off farm processing; and lack of compliance with international standards including Good Agricultural Practices (GAP) and Good Manufacturing Practices (GMP).

Photo: Julie Denesha for Mercy Corps, Afghanistan, 2010

Institutionally, there are a limited number of packaging and storage facilities and unreliable transportation; weak linkages along the value chain to disseminate information about prices and markets; and limited private or public extension services for agricultural development, including institutionalized agriculture research and development. Finally, there is a general lack of government support to improve quality and quantity of products along the value chain and very inefficient government processes to enable exports.

Since 2001, Afghanistan has reentered the global market for raisin production, with output hovering at 25,000 to 30,000 metric tons annually in the past several years. The country now accounts for 3 percent of the world's raisin production, with the biggest producers, the U.S, Turkey, China and Iran, collectively supplying roughly three-quarters of the world's supply. With competition stiff and Afghanistan still struggling to recover from the destruction of war, farmers have struggled to sell their goods any farther away than Pakistan, leaving them at the mercy of local markets and local prices. One of the critical barriers for small-scale Afghan fruit and nut producers to reach markets outside of Afghanistan is their inability to understand and meet export standards and understand where potential markets exist.

Project Summary:

The GDA program worked with 300 grape producers in 12 communities, nine grape and raisin traders and one raisin processor in Parwan province. Grape producers were divided into producer groups with five lead farmers responsible for each managing a collection center. The collection centers as a whole form the Parwan Raisin Producer Cooperative (PRPC) and its producers, the PRPC membership. Each producer group is independently registered with the government as a cooperative under the PRPC umbrella. The PRPC were introduced to two raisin processors and Fullwell Mill, a United Kingdom (UK) buyer of tropical dried fruit and fair-trade label products. During February 2010, PRPC raisins were granted 'exceptional FLO fairtrade status by the Fairtrade Labeling Organizations International (FLO), headquartered in Bonn, Germany. Fullwell Mill Ltd. now sells PRPC raisins in the UK with the FLO mark.

The GDA program increased the yield and quality of 300 grape producers in Parwan by conducting technical trainings on best vineyard management practices and by introducing appropriate agricultural inputs. PRPC members successfully completed the AfghanGAP food safety certificate course. GDAs require significant leverage to match USAID funds, and the private sector contributed more than $700,000 in cash and in-kind activities for the GDA in Afghanistan.

13 Note: This profile focuses only on the grape value chain portion of this program.

Role of Private Sector:

The GDA worked with multiple sector partners including three Afghani and two international firms. Bagram Fruit & Non-Alcoholic Beverage Company (Bagram) has a raisin processing factory and a grape juice plant and is struggling to make a comeback after being abandoned during 25 years of fighting in Parwan province. The GDA program assisted Bagram to rehabilitate their factory to process grapes produced by the PRPC. Unlike Bagram that required significant rehabilitation, Tabasom Raisin Processing Factory (Tabasom) has been fully operational since 2006. Tabasom was responsible for the post-harvest processing of the raisins to prepare them for export into the fair-trade market.

Roshan Community is the CSR unit of Roshan Telecom, the largest telecommunications company in Afghanistan. In collaboration with the GDA and DAI's IDEA-NEW program, Roshan launched *Malomat*, a market price information system that benefits farmers and traders by providing access to accurate and timely information on 25 commodities and agriculture inputs in 15 markets. This allows farmers to make informed decisions with regards to what they grow and sell and empowers them to negotiate fair prices for their commodities. Roshan provided over $600,000 and nearly all the research and development for *Malomat*. Since the GDA ended in October 2011, Roshan continued to invest and expand *Malomat* to help ensure its sustainability.

Photo: Julie Denesha for Mercy Corps, Afghanistan, 2010

Fullwell Mill Ltd., imports dried fruits and nuts from a range of partners in less economically developed countries. Working with fair-trade businesses, Fullwell Mill (and its brand Tropical Wholefoods) pays fair prices in advance, shares useful technology and develops and markets farmers' products. Prior to the GDA partnership, Fullwell Mill worked with Mercy Corps on an organic export feasibility study for raisins in Afghanistan. In the GDA they have provided technical training to PRPC members in the identification and removal of ochratoxin-causing mold that can damage grapes while on the vine.

Fairtrade International (formerly known as FLO) is the organization that coordinates fairtrade labeling at an international level from offices in Bonn, Germany. Their key objectives are to ensure that producers receive fair prices, provide an additional fair-trade premium to be invested in community projects, facilitate long-term trading partnerships and set clear minimum and progressive criteria for all fair-trade certified products. In February 2010, Fairtrade International determined that the PRPC had met the public compliance criteria for small farmers' organizations and issued 'exceptional status' fairtrade certification to the PRPC. FLO-CERT (the certifying body of Fairtrade International and an independent company) was unable to send external monitors to Afghanistan due to security concerns, so Mercy Corps took responsibility for ensuring that the PRPC meets all mandatory FLO-CERT compliance standards. The PRPC applied for full fairtrade certification in October 2011, and is anticipating a FLO-CERT audit in May 2012. PRPC will soon be able to sell fairtrade raisins without exceptional status.

Role of Mercy Corps:

Mercy Corps' role in the GDA program was primarily to facilitate connections in the grape value chain, which was critical to the building of trust and understanding between the PRPC and Fullwell Mill. Mercy Corps strengthened the supply-side of the market including improving the capacity of the PRPC and enhanced small-farmer networks which helped to shape the raisin export market; and partnering with Roshan to demonstrate new ideas, enhance networks and provide access to market information. On the demand-side, Mercy Corps facilitated linkages between farmers and the international export market, though with a temporary role and clear exit strategy.

Key Lessons Learned and Implications for Future Programs:

1. *Engaging demand-side private sector partners can help offset negative activity on the supply chain.*

To a great extent Afghanistan remains an informal economy with middle-men and traders that serve to drive up prices. This makes many Afghan agricultural products simply too expensive when compared to international market prices, and reduces the amount that farmers receive for their products. This was addressed by engaging with an international partner (Fullwell Mill) and further supported by the fair-trade status for the raisins. Fullwell Mill formed direct relationships with producer groups, and buying directly from the source reduced the number of intermediaries in the supply chain. As the program was fair-trade oriented, savings were passed on to the producers and gave them a 10% premium on local market prices.

Implication for future programming:

Engaging higher value private sector actors, who are not currently in a supply chain, can be a huge benefit to address supply chain weaknesses. There is particular opportunity for this when the private sector partner is not a local or national firm as they may be able to link to new markets and sidestep some of the ingrained constraints of the local or traditional economy.

2. *Managing effective partnerships with multiple private sector actors at different levels of the value chain can greatly complicate our engagement.*

To be effective, the GDA team engaged firms on the supply side, including the raisin processors and the business groups that organized farmers, and on the demand side, including Fullwell Mill and FLO. This diversity of partners meant that Mercy Corps needed to engage with each of them at different times and at different ways. The team facilitated the development of relationships between these different firms and ensured that relationships would continue after donor funding and technical assistance ended. Because the commodity is an export product, the program required a team with strategic understanding about a complex value chain, local business culture, international business standards, and the ability to understand the diverse interests of multiple private sector partners. They also needed to understand existing business competition and how that affects the development of new relationships. Our field staff had that level of expertise and had strong interpersonal skills, both important success factors in the implementation and ongoing management of this program.

Implication for future programming:

A program with a large number, focus, and reach of private sector partners can be very complex to manage, due to such things as differing interests, time frames, and partners' incentives. In that circumstance, we need to plan appropriately and hire staff with sufficient experience. This includes fully understanding how firms relate to each other and identifying opportunities to link them for mutual benefit.

3. *Private sector partners often can make investments.*

Virtually all the private sector partners in this program made some investment toward the success of the program. Roshan invested heavily in Malomat, Bagram invested in the rehabilitation of their juice processing plant, and Fullwell Mill invested in technical training, discounted their consulting fees and paid for product testing at certified UK labs. They also absorbed significant unexpected costs due to spoilage of product en route to Europe. Our program staff worked successfully to demonstrate the potential value of those investments to those partners. These investments helped meet a USAID requirement for co-investment but more importantly help ensure sustainability after Mercy Corps no longer has a direct role.

Implication for future programming:

Whenever possible, look for opportunities to get the private sector to invest in our programming. Recognize that the private sector is accustomed to making investments and absorbing some level of risk to be part of a commercial venture. Do not assume that all our efforts need to be free, even in highly aid-dependent settings.

Private Sector Engagement Toolkit – Program Profile: Profile Date: October 2011

4.2. Market Alliances Against Poverty (ALLIANCES) Georgia

Key Project Details:

Budget: $ 3.35 million

Dates: October 2008 – December 2011

Program Goal: Contribute to poverty alleviation and the transition to a durable and sustainable market economy for the livestock sector in the Samtske-Javakheti region of Georgia.

Objectives: Increase access to market information, services and technologies for small scale livestock farmers enabling them to increase their incomes and to withstand livelihood shocks in a sustainable and replicable manner.

Constraints Analysis:

Despite being situated adjacent to a large livestock market and with good infrastructural links to large urban centers, the Samtske-Javakheti municipalities of Adigeni, Akhaltsikhe and Aspindza do not enjoy the benefits of the market compared to much more distant municipalities in the same region.

Ninety percent of residents in the program area own cattle. Cows are typically milked and cheese and other products such as butter and yogurt are made, but livestock producers do not necessarily produce meat "for the market" as an income generating activity. Rather, they sell livestock only when they need money for schooling, house improvements or bulk food items, and for buying seed or animal feed. Given consumption needs, a poor family with one cow has only enough production for their own basic needs with little surplus cheese to sell or barter. Despite the importance of agriculture and livestock management in employment, only 8.8% of income currently comes from selling produce.

The baseline assessment identified the lack of local self-government capacity as a cross-cutting issue. The assessment also identified specific interventions to strengthen access to the dairy and meat markets, and to support disaster risk reduction (DRR).

Program Summary:

Alliances followed the Making Markets Work for the Poor (M4P) approach, centered on developing market systems to function more effectively, sustainably and beneficially for the poor. The donor is the Swiss Agency for Development and Cooperation (SDC), a Swiss government agency that is a strong supporter of market-development programming and the M4P approach. The program plan called for the project team to initially complete a more detailed assessment of the problem and the local context during a six month inception phase, and modify the program design in response to that assessment. As learning was gained on the M4P approach, additional design modifications were made.

Photo: Jeffrey Austin for Mercy Corps, Georgia, 2007

Alliances focused in five key areas; improved food-safety and hygiene in the dairy and meat sector, improved animal nutrition, improved animal breeding practices, improved market access and terms of trade and improved disaster risk management. A major element of the program is to deepen understanding of the market and the local context, and to facilitate linkages between program participants and the private sector. This happened in each of the five key activities. The program is grounded in engaging private sector actors to identify systemic problems and to design appropriate interventions, researching markets to understand the context and to increase adoption of new products and services, testing markets through small-scale or loss-leading investments and a co-investment function to support developing private sector market actors. Finally, Alliances has a focus on geographic clustering supported by GIS maps which reveal strengths and weakness in market linkages.

To accomplish its objectives Alliances uses a number of instruments; investment support including grants; conditional grants and co-investment; business services specifically structured to not undermine the local business services market; information instruments including newspaper supplements and regional agriculture fairs; DRR support; and 'BEAT' a process to understand environmental impacts.

Efforts to support program sustainability centered on stimulating a market for the program's new and improved services and products. This includes, increasing public demand for meeting safety standards and higher quality meat and dairy products, creating a market for artificial insemination (AI) services to improve livestock quality, and improving the terms of trade for small-scale producers by improving the capacity of intermediaries between producers and the market.

Role of Private Sector:

The private sector is widely engaged in many aspects and activities of the Alliances program. Their engagement intersects all levels of the program well beyond being an input supplier or buyer. Examples include: Caucasus Genetics (an artificial insemination provider), Livestock Market Ltd (market information), Meskheti Product Ltd (cattle transport), Association Anluchi (nutrition BDS), amongst others.

Role of Mercy Corps:

Mercy Corps is responsible for overall management and implementation of the program, managing activities from a regional sub-office where the program staff are located. Our implementation role includes leadership in design of systemic interventions (according to M4P principles), linkages and representation to relevant external networks in Georgia and globally, technical support for M4P, DRR and good governance, and capacity building for partners and staff.

Key Lessons Learned and Implications for Future Programs:

1. *Constant market intelligence, research and analysis support flexibility, inventiveness and adaptation.*

One key principle of Alliances is flexibility and adaptation: changing tactics according to changing conditions in order to achieve the program goal. This approach is essential in designing or modifying offers that appeal to Alliances' participants. Flexibility, inventiveness and adaptation also incent private sector actors to undertake new roles or activities because they see long-term rewards, not because they are temporarily paid to do so. Good market intelligence and analysis are critical in supporting flexibility and inventiveness.

Implication for future programming

Building flexibility and the capacity for interventions to evolve based upon changing circumstances is a crucial design consideration to engage the private sector in a significant role in our programs.

2. *Sustainability and legitimacy come from relationships with reputable partners.*

Alliances works through service providers to bolster their capacities to be able to continue providing services beyond Mercy Corps involvement. This is a core element of sustainability under a market development approach. To best ensure the success of this approach, it is important whenever possible to work with companies that have a proven record of successful market development.

Implication for future programming

It is crucial to identify the right private sector partners, with a strong track record and local legitimacy. It is most effective to develop a strong partnership with low visibility on Mercy Corps part – utilizing a facilitative approach – to achieve sustainable outcomes. Low visibility means giving a position of power to local market actors and not undermining their business interests.

3. *Importance of an ongoing and direct policy dialogue.*

Government policy and the enabling business environment directly impacts the market systems that Alliances seeks to change. Therefore, in working to implement market-development interventions is has become very apparent that it is important to have a proper policy dialogue with the central government as well as engagement at regional/ local levels of government.

Implication for future programming

Dialogue with government at multiple levels should take place whenever an overlap exists between government policy and the planned intervention or where changing the business enabling environment is the intervention needed to remove a systemic constraint. That dialogue should include private sector partners as they are the key stakeholders to create relationships between the private and public sectors.

4. Staff structure and background is an important consideration.

Alliances' staff structure reflects activities which are divided according to portfolios and managed by respective portfolio managers. This has proven to be an efficient means of delivering an M4P program as it focuses relationships and dialogue between one member of staff and a private sector partner. Alliances local staff, were recruited with a focus on experience in private sector, businesses negotiation skills and capability to identify where a potential intervention might sit within a business context. The staff uses their skills and understanding of the local context to better facilitate linkages between market actors.

Implication for future programming

To best support a program with a private-sector engagement approach you need the right staff. Whenever possible, hire staff that has some local private sector experience, and make early investments in staff capacity-building and mentoring.

Photo: Thatcher Cook for Mercy Corps, Georgia, 2001

Private Sector Engagement Toolkit – Program Profile: Profile Date: November 2011

4.3. Spicing up the Deal: Cardamom and Ginger (CaGi) Nepal

Key Project Details:

Budget: $ 263,000

Dates: September 2008 – August 2010

Program Goal: Increase income and well-being amongst smallholder cardamom and ginger farmers and their communities in the remote Eastern Highlands of Nepal.

Objectives:

1) At the production level, improve collective bargaining power by increasing the quality of the product being produced, building business capacity, improving business linkages and facilitating financial services.

2) At the trade level, increase collective marketing and create an enabling environment through facilitation between stakeholders at various levels of the value chain, including trade associations and business membership organizations.

Constraints Analysis:

The agriculture sector in Nepal suffers from low productivity resulting from low-yielding cultivation methods, fragmented agricultural land holdings, lack of information, and inadequate availability of improved technologies. Cardamom and ginger are cultivated by a high number of smallholder farmers and have substantial profit potential, particularly for premium varieties, and can be environmentally and sustainable farmed. There also is high demand in domestic and export markets. The cultivation of high-value spice crops, such as cardamom and ginger, has been increasing. However, farmers have received relatively low prices because of inferior quality and disorganized, undifferentiated marketing strategies, aggravated by remoteness, social exclusion, lack of access to information, and disorganization across the cardamom and ginger industries.

Design Review:

CaGI focused at two levels; production and trade. At the production level, the program strengthened cardamom and ginger farmer groups; enhanced organizational capacity; improved their business skills; and improved technical practices in varietal selection, cultivation, disease management, and post-harvest handling. CaGI also forged links with traders, wholesalers and exporters by facilitating collective marketing, information sharing, and contract farming.

Photo: Mercy Corps, Nepal, 2008

To promote premium product quality, cardamom farmer groups improved primary processing functions such as grading and small-batch drying; and ginger farmers utilized low-fiber seed varieties, low-cost storage techniques, and enhanced post-harvest handling techniques. For all farmers, disease management training, capacity building of input suppliers and seed banking arrangements were incorporated, and access to improved agricultural savings and loan products were provided by a microfinance institution,

At the trade level CaGI facilitated interaction between stakeholders – farmers, traders, wholesalers, exporters, government representatives, members of the local and national media, and local NGOs – to improve negotiation, coordination, and communication between these value chain actors. This included the Large Cardamom Entrepreneurs' Association of Nepal (LCEAN) and the Nepal Ginger Producers and Traders Association (NGPTA).

Role of Private Sector:

Two business groups have a significant roles in the program. The Large Cardamom Entrepreneurs' Association of Nepal (LCEAN) advocates for improved trade conditions, standardized grades and sales practices, and improved links with key export markets. Mercy Corps facilitated the formation of this new business group and supported their effort to gain wider representation, The Nepal Ginger Producers and Traders Association (NGPTA) works to promote premium quality ginger, initiate links with export markets, and advocate for reduced barriers to trade.

Nirdhan Utthan Bank Ltd (NUBL) expanded their operations into rural areas of Eastern Nepal to support smallholder farmers. NUBL disbursed loans to the farmer groups who purchased items, such as seed, agricultural equipment, and livestock. NUBL provided other financial services, training and self-reliant group mobilization support to farmers. Mercy Corps had a previous relationship with NUBL under a different grant program, and encouraged this partnership by facilitating a grant for NUBL from the Whole Planet Foundation.

Other private sector businesses supported the program including traders, exporters and wholesalers. Seed nurseries and agro vet agents, who sell agriculture products on behalf of big agriculture product dealers, also helped strengthen the cooperative seed banking system.

Role of Mercy Corps

Mercy Corps had a direct role in facilitating the formation of LCEAN, providing technical assistance including supporting the formation of farmer groups to collaborate on training, farming techniques and business development skills. Mercy Corps assisted NGPTA with their strategy planning and nationwide recognition by facilitating linkages with national level entities such as the Federation of Nepalese Chambers of Commerce and Industry. Mercy Corps forged links between farmers and the other private businesses, including input suppliers, traders, wholesalers and exporters, and with other NGOs to support ongoing training, and facilitated the grant from the Whole Planet Foundation to NUBL. Mercy Corps coordinated with public sector agencies to abolish the Fawa system, which required farmers to pay an informal tax equal to one kilogram of cardamom for every 40 kilograms sold, and for the reduction of various ginger trade taxes levied by influential groups.

Key Lessons Learned and Implications for Future Programs:

1. *Merging of farmer groups into cardamom and ginger business groups improved access to formal services and other private sector partners.*

The project united farmers into farmer groups, and facilitated the formation of cooperatives that enabled farmers groups to formally unite under one umbrella. Once organized into cooperatives, farmer groups were able to benefit from saving and credit schemes, seeds distribution, exposure visits, trainings, demonstrations and information sharing.

Implications for future programming:

Organizing individual participants into formal groups should be considered if the program seeks to connect them with other private actors. A formal group structure supports better access to private sector services such as finance or business development services because it simplifies or increases the efficiency and value of the engagement for the private partner. It may also support better access to government services or market incentives that are available.

2. *A holistic project approach with partners at multiple levels of the value chain is essential.*

The project worked with private sector partners at different levels of the value chain, predominantly at the production and trade level but also, to a lesser extent, at the input level, the exporter level, and with cross-cutting services such as financial access. The project supported LCEAN's expanding national role, which resulted in advocacy for improved trade conditions, grading standards, and sales practices for cardamom. The project assisted NGTPA to promote premium quality ginger and reduce barriers to trade. Mercy Corps' facilitation role supported connections and communication at all these levels.

Implications for future programming:

Coordination between different private actors and program participants is critical in complex value chain programs that include a significant private sector component. Identifying, articulating and supporting incentives for all partners at all levels is crucial so that stakeholders view engagement as a win-win situation.

3. *Facilitating a connection to specific private businesses helps fulfill a vital market gap.*

Among other findings, research indicated that access to financial services would be a critical sustainability factor for this program. Mercy Corps met that need by connecting program participants to Nirdhan Utthan Bank Ltd (NUBL) and connecting NUBL to the Whole Planet Foundation for funding.

Implications for future programming:

Leveraging our relationships and providing support to designated private business is a good way buy down risk, fulfill a market gap, and build commitment of the private sector. However, gaining that commitment is an evolving process that develops as the private partner observes and gains benefit from the engagement. This needs time to build and may not happen sustainably over one cycle of an agriculture project. In these types of projects we may need to look at multiple private partners and linkages between partners to support a project beyond its initial duration.

4. *Geographic targeting is crucial to the project success.*

In CaGi, geographic targeting considered factors including locating in a region that environmentally supports high cultivation of ginger and cardamom; ensuring adequate proximity to the main transit point where local traders sell produce in bulk to exporters; and the commercial opportunity for business linkages, expansion, and value additions.

Implications for future programming:

Having a strong understanding of the advantages and challenges of a geographic region, including the business, private sector, market and environmental perspective is an important baseline. This is especially important for a project that focuses on products targeted for the export market, or one that is highly perishable like ginger. That understanding can be updated as knowledge is gained or the program evolves.

Photo: Mercy Corps, Nepal, 2008

Private Sector Engagement Toolkit – Program Profile: Profile Date: July 2011

4.4. My Child's Café Food Cart Program (KeBAL) Indonesia

Key Project Details:

Budget: $ 255,000 (including $120,000 provided by Vibrant Villages Foundation; $100,000 provided by Mercy Corps' Food Crisis Action Fund, and the remainder from other donors.)

Dates: November 2008 – December 2011

Goal: To achieve well-nourished children under five and provide an increased number of families with economic opportunities in the target communities.

Objectives:

1: Sustainable, self-driven business model of street vendors selling healthy food aimed at children under five.

2: Broad awareness of the importance of nutrition for children under five among the urban poor.

Constraints Analysis:

Poor children growing up in the urban slums of Indonesia are debilitated by their diets. While many parents are interested in a healthy diet for their children, they often lack access to healthy food options. Since most residents do not have kitchens or cooking supplies, they usually purchase food from a street vendor. Unfortunately, most street food is high in fat and sugar, low in micronutrients and protein, and potentially tainted by additives such as formaldehyde. Typical street food can lead to high rates of malnutrition and subsequent long-term impacts, including stunting, anemia, reduced productivity, and other illnesses, especially in children under five. Changing children's diets requires not only making healthy food available, but also making it appealing to children and making it affordable.

Design Review:

Recognizing poor children's nutrition in the urban slums of Jakarta and the unavailability of healthy food options, Mercy Corps began a pilot in 2008 to test the market for healthy street food alternatives. Four prototype food carts were created and local entrepreneurs were recruited to run them in four Jakarta neighborhoods. A nutritionist created a menu of inexpensive but nutritious food suitable for morning meals and snacks, and a child-focused visual brand was developed.

Following a food industry strategy, Mercy Corps conducted consumer research, an insight analysis process, and an ethnography study in order to better understand supply and consumer demand for healthy food. Based on that research, KeBAL developed a marketing strategy, including a catchy jingle announcing the presence of the cart in the neighborhood, a visual brand that adorns the cart and a vendor's uniform to educate families about balanced nutrition and inspire children to eat healthy foods so they will be "tall, lively, smart and strong."

After nine months the pilot demonstrated the existence of a viable market. In the four target communities, over 400 children under five were regularly being served. The vendors averaged 30% profit margins on their products and were making approximately $130 per month. Demand far exceeded supply, with vendors regularly selling out and mothers and children reporting high satisfaction levels. An evaluation was conducted to collect customer feedback and found that the KeBAL product is appealing when compared to alternatives based on criteria including menu selection, taste, appearance, price, nutrition, and service.

Mercy Corps adopted a scalable business model to extend the social enterprise throughout Jakarta with potential to go country-wide. The goal is to reach 500,000 Indonesian children through a tiered model of neighborhood-based kitchens (Cooking Centers) preparing food that is sold by independent street vendors. A micro-franchise system for the Cooking Centers and street vendors ensures cohesive branding and product consistency and quality, while enabling enough flexibility and outside investment to achieve scale. The Cooking Centers will be operated as for-profit centers, and when full output is reached, each Center is expected to generate approximately IDR 90 million ($ 9,600) of operating profit per quarter. The target net revenue for a KeBAL street vendor is IDR 2,000,000 ($210) per month, which is in the upper middle range for street vendors in Jakarta. KeBAL is projected to be self-sustainable by the end of 2013.

Role of the Private Sector:

KeBAL has transitioned from a development project to a private sector entity - PT. KeBAL - that will be supported technically but non-financially by Mercy Corps. PT. KeBAL is owned by the Microfinance Innovation Center for Resources

and Alternatives (MICRA) Foundation, an independent local Indonesian foundation specializing in micro-finance and micro-enterprise, created by Mercy Corps in 2006. MICRA will provide long-term oversight of the business and ensure PT. KeBAL retains its social mission. The long term vision and business model of KeBAL is to sell micro-franchise Cooking Centers to private investors who will each support approximately eight micro-entrepreneur street vendors.

Other private sector actors have been involved in supporting the program. Saatchi and Saatchi Indonesia developed the branding and marketing scheme on a pro-bono basis. Other private sector actors are now interested in investing in PT KeBAL, either to expand the current model or to add new retail elements to reach new populations.

Role of Investor/ Donor

The majority of KeBAL funding for the initial phase came from internal Mercy Corps funds and a grant from the Vibrant Village Foundation, which funds programs in health, nutrition and economic developments focused on sustainability. Looking beyond the pilot that ends in December 2011, it is anticipated that other investors/donors will contribute to the continued development of the program, particularly private companies interested in helping KeBAL make the step to profitability and sustainability.

Role of Mercy Corps

Mercy Corps initiated KeBAL as a pilot project. Activities that supported the pilot included ethnography research to collect information about street vendors and their customers, creation of a partnership with a nutritionist to develop healthy food menus, and another partnership with an advertising company to design the KeBAL brand.

Following the initial success of the pilot, Mercy Corps facilitated the work of graduate business students to identify the business model with the most potential for replication and scalability. Mercy Corps established KeBAL as an independent business under MICRA. Finally, Mercy Corps technical teams provided extensive technical and operational support to establish KeBAL, some of which continues today.

Photo: Fitria Rinawati/Mercy Corps, Indonesi, 2011

Key Lessons Learned and Implications for Future Programs:

1. *Getting the business model right is key to success.*

KeBAL tested different business models based on customer feedback and profitability calculations including having a vendor prepare and sell food individually, having one vendor prepare food and another sell it (supporting afternoon and morning selling), and creating Cooking Centers to provide food to a group of vendors (supporting afternoon selling and more food variety). In 2010 a team of volunteer MBA students from the Massachusetts Institute of Technology (MIT) helped KeBAL prepare a business plan and expansion strategy. From that process it became clear that to reach scale, a new three-tiered model would be the strongest option with neighborhood-based, franchised Cooking Centers preparing food that is then sold by individual street vendors.

Implications for future programming

A business model is vital. One option is to at least conceptually design a likely business model up front including in a Mercy Corps exit strategy. This can be done with internal technical resources, with external technical advice augmenting our business acumen when necessary. Testing and revision of the model is an important step.

2. *Shifting from a development project to a sustainable enterprise can pose significant staff and community relations challenges*

The staff assigned to this program consisted of skilled managers and innovators in traditional development programming, but most did not have the technical skills required to support development of a sustainable enterprise. It is important to get the right mix of staff that can provide the appropriate expertise for the social mission, as well as technical expertise for enterprise development. In response to that, Mercy Corps involved its Indonesian economic development team and the EMD TSU throughout the pilot phases. However, KeBAL, as a private entity continued to overly rely upon Mercy Corps for daily operational monitoring, and to be successful, KeBAL needs to establish an independent, local

monitoring system. Community relations in this transition have been challenging. If the community knows the enterprise as a Mercy Corps initiative, they may have different expectations of how it operates, and may be surprised when the firm makes routine business operational decisions

Implication for future programming

Even when a project is a pilot, the staffing and structure that will support the transition to a sustainable enterprise need to be considered from the outset. This requires making a mental shift from implementing a 'project' to developing an 'enterprise.' If feasible, independent monitoring systems for business operations should be designed and put in place from the program's inception.

It is important to bring on the long-term business manager as early as possible so s/he can be involved in developing the business. If possible, keep Mercy Corps in the background in terms of community relations and avoid sending the message that this is a development program rather than a social enterprise. Be careful about early promises made to individuals and communities to get the program started – they may not be compatible with a long-term business-oriented approach.

3. Selection of experienced local private sector partners is critical.

KeBAL has experienced some lack of entrepreneurship and risk-taking on the part of micro-franchisees such as limiting sales to avoid left-over and waste. To address that, PT KeBAL developed new procedures to improve vendor and investor selection, particularly to select vendors with prior business experience, and with demonstrated entrepreneurial skills.

Issues have also arisen regarding community and vendor perceptions of KeBAL as it shifted from being a project to a viable business entity. Vendors still associated KeBAL with Mercy Corps and expected KeBAL to treat them like traditional NGOs treat their beneficiaries. For example, many of the vendors are women who are struggling with work and family responsibilities. Some of these women vendors approached KeBAL asking for loans to help them meet household needs which KeBAL is not set up to do. Their personal issues have negatively influenced their sales performance and slowed business development.

Implication for future programming

At the outset of the program it is important to clearly articulate that the relationships with partners (our vendors in this instance) are business engagements and will succeed based upon their individual performance. Partners must have a clear understanding of the program's aim at long term profit and sustainability, and that it will not be indefinitely subsidized. To help facilitate this, when selecting partners it can be helpful to create partner profiles that identify the qualities important in a partner and actively recruit on those profiles as well as allow some self-selection to take place so that the most motivated, experienced, and well-matched partners are prioritized.

4. Maintaining the social mission can be challenging with competitive market pressure.

The nutritional quality of the food is the core of the social mission of PT. KeBAL and crucial to maintaining their market niche. As the enterprise expands, it will be under pressure to compromise on nutritional quality to respond to the rising cost of inputs and decreasing profit margins, and from competition from other enterprises. Competition will grow as others see the success of KeBAL; there have already been copy-cat enterprises established in areas near where KeBAL operates. This is positive from a market development perspective but poses challenges from a nutrition and quality-control perspective.

To remain competitive, PT. KeBAL management will need to be creative and explore different strategies including developing new food products to combat customer boredom and increase margins, improved production systems to lower costs, and creating a variety of distribution models to expand geographical reach. Another option might be to target and expand to other market segments (i.e. targeting middle income) or other urban areas in Indonesia. At the same time, as the owner of PT. KeBAL, the MICRA Foundation needs to ensure PT. KeBAL stays focused on their social mission while, at the same time, creatively addressing the competitive pressure they face.

Implication for future programming

When a program sets up a new social enterprise or engages with an existing social enterprise, it is important to understand who is responsible for ensuring that the social mission remains a priority. Permanent mechanisms need to be in place to ensure the social purpose remains. At the same time, the program needs to clearly drive the business forward toward profitability and sustainability. Both of these desired outcomes are supported by a strong marketing strategy, and a well-developed business model and management.

Private Sector Engagement Toolkit – Program Profile: Profile Date: December 2011

4.5. Market Opportunities for Rural Entrepreneurs (MORE) Mongolia

Key Project Details:

Budget: $3.4 million

Dates: July 2009 – February 2012 (Phase 1)

Program Goal: Increase the income of Mongolian herders and ex-herders in 15 aimags (provinces) through sustainable mechanisms. The objective for the first phase is to create new market opportunities to help diversify and expand rural businesses in Mongolia.

Objectives:

1. Market Access and Expansion: Put in place sustainable systems to develop new or improved market linkages for herders and ex-herders.
2. Business Development Services (BDS) and an Enabling Business Environment: Have 25 BDS providers in 15 aimags deliver sustainable services including facilitation of access to loans and investments.
3. Competitive Outsourcing of Government Services: Increase demand for local goods and services through expansion of transparent and competitive outsourcing of government services (COGS).

Constraints Analysis

Mongolia is the world's second-largest landlocked country and is fully surrounded by Russia and China. Eighty percent of the country is used as pastureland and approximately one third of Mongolia's 2.8 million people live as semi-nomadic herders. During the early 1990s, Mongolia began the move from a Soviet-style political system and state-based economy toward a market-oriented democracy. These changes marked the beginning of stronger social, political and economic systems for Mongolia. But while economic gains have been made, the gap has widened between rich and poor and between rural and urban populations.

Photo: Julie Koehler/Mercy Corps, Mongolia, 2010

The key issues faced by the majority of rural businesses, including herders, are a struggle to effectively market their products and services; a volume gap between low capacity of producers and high demand from buyers; inadequate access to financial, marketing and business development services; poor production quality and reliability; poor understanding of consumer preferences and market conditions; and limited local demand for goods and services. To address rural economic issues, the government has committed to supporting stronger rural private sector procurement.

Design Review:

MORE was initially funded for 3-years; however the outcomes and objectives were based on a six-year time horizon that was necessary to achieve full sustainability. There are three primary components in the program. The first is to create extended producer groups (EPGs), each made up of, on average, 100 households of herders and ex-herders, sometimes built on existing smaller cooperatives and producer groups. These EPGs provide tangible benefit for their members through improved terms on sales and purchasing agreements that are not possible for individual members or small cooperatives. MORE helped EPGs improve market linkages by providing support to improve negotiating and contracting skills and by increasing access to technical and market information through a mobile phone commodity price tracking system.

The second component supported the development of institutionalized, sustainable BDS networks in all 15 aimags. BDS providers may be registered as for-profit firms. However, due to tax issues most are registered as non-profit organization and some are university-affiliated organizations. MORE supported the development of this network by subsidizing consulting projects, offering access to quality market information, and providing technical know-how.

The final component facilitated competitive outsourcing of government contracts in order to increase demand for local goods and services, such as school tea break supplies, uniforms, and construction work. This creates competitiveness among local businesses and stimulates healthy economic development on the local level, improving product demand and job creation, and helps governments deliver better goods and services in a more efficient manner. MORE achieved this by facilitating and expanding public-private partnerships to expand outsourcing of governmental services to the private sector, improve management of public services, and included partnering with CSO's for monitoring services. Citizen participation in outsourcing was strengthened through capacity building of the private sector and CSOs in bid preparation. Tripartite agreements - with civil society, local government and private sector representation – have already been established in 11 aimags and CSOs trained in monitoring are providing the oversight for business delivery a range of services with funding from the Mongolian Government.

Role of Private Sector:

In the MORE program, the private sector included small and medium enterprises (SMEs), including agri-businesses, input suppliers, processors, marketers, and small manufacturers, directly engaged through bidding for government service contracts. It also included the EPGs and the BDS providers who provide capacity building support to the EPGs and the PPP multi-stakeholder groups.

Photo: Thatcher Cook for Mercy Corps, Mongolia, 2008

Role of Mercy Corps:

Mercy Corps leveraged years of experience working in rural Mongolia and the strong working relationships with government to mobilize stakeholders from government, CSO and the private sector to form the public-private partnership (PPP) groups that support the competitive outsourcing of government services. Mercy Corps also provided targeted support, training and technical assistance to existing and new BDS providers and to create a BDS network. Finally, Mercy Corps facilitated the creation of new EPGs and the enhancement of existing cooperatives and producer groups into EPGs.

Key Lessons Learned and Implications for Future Programs:

1. *Extensive previous experience significantly supported partnerships with local government partners.*

Prior to initiating this program, Mercy Corps had many years of experience with the local government partners that were significant players in the tripartite partnerships. Over that time we built trust, established communications systems and created strong relationships. All of this activity supported a series of development programs and helped establish our credibility and a solid reputation. As such, our local (and national) government partners had a high level of confidence in Mercy Corps, and in our ability to implement the complex partnerships necessary for this program.

Implication for future programming:

Relationships are crucial for all private sector engagements and especially for complex multi-sectoral partnerships. Leveraging our program experience, personal connections, capacity, and operational systems all support developing and maintaining those relationships.

2. *Taking an active facilitative role in a multi-sectoral and multi-stakeholder partnership strongly supports effective program management.*

For this program, Mercy Corps took a program leadership role that was highly facilitative. We focused on bringing the private sector, local public sector and CSO organizations together in the tripartite agreements. Additionally, we used our facilitative role to help identify and manage unanticipated activities and issues and support effective problem-solving when necessary.

Implication for future programming

Minimizing our direct intervention and adopting a facilitative approach is very important when trying to build and manage complex engagements like MORE. This is particularly important when a goal of the program is to develop the capacity of the different program actors to engage independently in collaborative, but commercial relationships that will require on ongoing dialogue and negotiation.

3. *Direct subsidies to private firms can create unintended or distortionary effects and dependency.*

In the beginning of this program, MORE provided direct financial support and low cost-share interventions to private firms including EPGs, SMEs and BDS providers. The goal of this support was to initiate activity and reduce the risk for private firms in the program, and they have proven effective at promoting effective engagement. To date, there has been no observation of distortionary effects from the subsidies in this program. However the program team continues to actively monitor for potential impacts or the creation of unintended dependency from the private sector on MORE subsidies, and when observed to formulate strategies and new relationships to counteract that.

Implications for future programming

The negative impact of direct subsidies to private firms is difficult to predict at the outset of a program, but assessing for market distortion is an important activity, particularly if our goal is to create viable private firms that will compete in the marketplace after the program is completed. Subsidies should be approached with caution, full analysis needs to be done of the effect on the competitive environment, and an exit strategy needs to be in place that ensures the partner does not become dependent on the subsidy

Private Sector Engagement Toolkit – Program Profile: Profile Date: October 2011

4.6. Program of Urban Sanitation and Hygiene Promotion (PUSH) Indonesia

This profile also includes activities focused on community-based sludge removal services that are part of the RW Siaga ++ program.

Key Project Details:

Budget: $500,000

Dates: January 2009 – December 2011

Program Goal: The PUSH program has a goal to increase access to affordable and environmentally friendly sanitation services in targeted areas.

Objectives:

1. To pilot low-cost and environmentally friendly sanitation infrastructure models replicable by residents, local government and /or private sector.
2. To increase awareness of local residents and government about environmental and economic benefits of improved sanitation.

RW Siaga ++ was a program in Jakarta focused on increasing access to clean water supplies and improved sanitation to reduce infectious diseases. In the latter stage of the 2-year program (September 2009 – September 2011) it incorporated and tested technology developed under the 1st PUSH objective focused on sludge removal services.

Constraints Analysis:

As of 2008, over 94 million Indonesians (almost 45% of the population) did not have access to sanitary toilets, 33 million still practiced open defecation and 22 million shared communal latrines. In the capital city of Jakarta only 2% of the population has access to a sewer system, and unsealed septic tanks or soak pits results in wastewater flowing through open gutters and contaminating shallow groundwater.

Sludge from septic tanks is often discharged into open waterways. Proper septic tank maintenance services are unavailable. More than 75% of the city's residents rely on shallow groundwater as a source of water despite a recent study which found 90% of shallow wells to be contaminated with fecal coli form bacteria or heavy metals.

The Government of Jakarta is taking steps to address the issue by instituting the Domestic Waste Water Regulation in 2005 (UU 122-2005), however, this regulation is insufficient to address the growing urban population with lack of access to sanitation facilities. Currently there are just two sludge treatment plants in West and East Jakarta, with 35 enterprises offering sludge removal services. The cost of de-sludging a septic system is approximately $20-$30 USD; where the average poverty affected household's income is just $150 USD per month. Therefore, the most common means of sludge disposal are dumping into rivers or informal dumpsites, options that pose significant public health hazards.

Design Review:

The PUSH project took a market-driven development approach to making sanitation services available in poor urban communities in Jakarta. PUSH developed models and technology to foster a vibrant sustainable market system where the supply of affordable and context appropriate sanitation solutions to densely populated areas can meet the equivalent demand.

Working with sanitation consultants, the Indonesian Environmental Engineers Association (IATPI), and local businesses and craftsmen, Mercy Corps developed and tested context appropriate sanitation technologies.

- A residential Septic Tank that included a mini bio-filter wastewater treatment element that is sealed to minimize impacts of floods and earthquakes and will hold two years of a families' waste.
- Two Fecal Sludge Removal (FSR) mechanisms that can maneuver in the narrow pathways of the Jakarta slums, pump sludge from the septic tanks, and transport it to a storage collection point.
- A Temporary Sludge Storage solution that will hold sludge pumped from the FSR until it transferred to an environmentally sound, final waste disposal site.

All these technologies can be manufactured at relatively low-costs by local tradespeople with locally sourced materials. Mercy Corps worked with market actors, public sector and the communities to ensure that sanitation services in low-

income areas are available, affordable and reliable. A key aspect of that was a partnership with a local microfinance institution (MFI) to offer installment payment options to households for septic tank purchases. In the business model piloted, the MFI was responsible for marketing, selling and device installation through contractors they hire.

A second business model was developed around the fecal sludge removal services through the RW Siaga ++ program. A community-task force comprised of local women was created. They managed the sludge removal services, including marketing the services, managing finances, and paying the operators who are employed at a commission-based salary. The profits are recycled back into the community into a project the task-force chooses based on their institutional priority. The model was piloted during the last four months of the RW Siaga ++ project, and showed prospects for success. All parties involved responded positively about the various incentives (a steady salary and income to be used towards community-projects).

Mercy Corps undertook market research that determined that while sanitation services is not always a priority in these communities, there is interest in improved sanitation systems and sludge removal services if they could be provided at affordable rates and if the sector for sanitation services is competitive.

Role of Private Sector:

Virtually all key elements of this project are handled by private businesses. This includes manufacturing and installing the septic tanks appropriate for highly dense populations and supplying maintenance services for those systems. The MFI has a key role in providing loans that enable affordable installation of sanitation infrastructure through installment payments, and for marketing the program to construction companies and home leasers. PD. PAL Jaya, a state-owned waste water treatment company handles removal of the sludge to the final treatment site.

Role of Mercy Corps:

Mercy Corps' primary role was as facilitator between market actors. We provided business development assistance devising the economic sustainability model. Mercy Corps provided a significant amount of technical support and capacity building, and one-time financial support to the MFI to spur them to extend credit to buyers of the new septic tanks.

Roles of Other Actors:

PUSH established an Advisory Board, a forum of multi-level government sanitation institutions that provided input on how to best integrate project activities with current government programs, and advised on the infrastructure interventions feasibility based on government regulation and planning. The World Bank's Water & Sanitation Program provided technical input through regular coordination meetings, and the Indonesian Environmental Engineers Association (IATPI) helped develop suitable sanitation technology.

Key Lessons Learned and Implications for Future Programs:

There are many lessons learned from PUSH related to the technical issues of waste management and hygiene promotion. Other lessons are more specifically related to engagement with private sector partners.

1. *Utilizing private sector engagement strategies is an innovative way to directly address social challenges (and basic services) such as poor sanitation.*

In this situation, given the market size, willingness to pay, population receptiveness to social marketing, and the competitive landscape, there was a clear potential demand for market-based sanitation services. Given this, the strategy of PUSH to link private sector actors was an effective way to identify, develop and supply appropriate products for the market. This market-based approach includes supporting the profit goals of the social enterprises and private sector partners engaged in the program.

Implications for future programming

Private sector engagement is not just a strategy for economic development programs. These strategies can also be applied effectively to programs focused on social or environmental challenges including basic services as long as private-sector goals of sustainable income generation are adequately fulfilled.

2. *Business models need to provide incentives to all involved actors.*

In PUSH, Mercy Corps developed business models that focused on both supply and demand. On the supply side, these models addressed all aspects of the supply chain including design, manufacture, installation and systems maintenance, and the work of an MFI to market the services and provide credit to septic tank buyers. On the demand

side, these models included providing multiple products and payment options, and focused on social capital and social marketing programs to emphasize hygiene promotion. Under these programs demonstration systems were provided to influential community members, and they were given stickers for their front door saying "I own a Septic Tank." The goal was to promote the program to the rest of the community by associating sanitation services with prestige.

Implications for future programming

Time, resources and expertise to develop and test the best business models is a crucial aspect of a complex market-development project. This is even more critical when the primary program goal has a social or environmental focus because stakeholder interests may be more divergent. Creatively using social marketing can be an important element.

3. *Strong collaboration has been achieved by recognizing divergent goals and the appropriate incentives for key program actors.*

PUSH attempts to meet the primary goals of key stakeholders. The profitability goals of the private sector partners and social enterprises that support the supply chain are supported by the business models being tested. The environmental goals of the local and regional government are being supported by the appropriate removal of waste- keeping it from polluting Jakarta waterways and water supply. The health and improved livelihood goals of the poor are supported by the education campaigns focused on improved hygiene and the financial support provided by the MFI enabling local communities to purchase septic tanks on installments.

Implications for future programming

Recognizing and addressing the interests of key stakeholders is critical, and a program design that meets those interests in the most balanced manner possible can directly translate into an effective, collaborative working environment.

Photo: Christine Tye/Mercy Corps, Indonesia, 2011

Private Sector Engagement Toolkit – Program Profile: Profile Date: December 2011

4.7. Sustainable Community Health Stores (SCHS) Guatemala

Key Project Details:

Budget: $330,000

Dates: February 2009 – March 2012

Program Goal: Develop a social model for improving health through the increased access of health care products in rural Guatemala on a sustainable basis by 2012, and advocate taking that model to scale.

Objectives:

1. Primary: Improve availability, access and utilization of health products in target communities.
2. Secondary: Document the pilot's successes and lessons learned; utilize this knowledge base to advocate the approach within Mercy Corps and to the wider development community and within Guatemalan local government, private sector and civil society.

Constraints Analysis:

Guatemala has a population of nearly 14.3 million people. According to the International Fund for Agricultural Development (IFAD), 49% of Guatemalans live in rural areas and 71% of the population is poor.[14] This population has high child morbidity and mortality rates, poor maternal health and family planning, and high rates of HIV-AIDS, among other health-related challenges. Over 50% of children suffer malnutrition, and child mortality is around 36% due to pneumonia and a 22% rate of gastrointestinal diseases. A main obstacle to improving these key indicators is the lack of access to basic health products and services in rural areas.

The Guatemalan Government and NGOs provide health services but these lack scope and outreach. They focus primarily on mothers and children under the age of five, are geographically isolated, lack qualified staff, and also lack the products and quality of services needed to satisfy the health needs of the rural population. The common perception that rural areas are unprofitable has resulted in lack of private investment.

Guatemalan rural pharmacies (botequines) have undeveloped business processes including financial management, supply chain management, and product standardization. The owners have insufficient access to capital, inadequate access to training and poor business monitoring practices. They suffer from an unreliable supply chain, meet only roughly 50% of customer needs, and have limited possibilities for increasing efficiency through scale. A result of these dynamics is these botequines often make very limited or no profit. For the poor who live in rural Guatemala, the cost and access to travel to more well-established pharmacies can be a huge barrier to prevention and early treatment of illnesses.

Brief Design Review:

To address the linked challenges of lack of availability and utilization of medicines, Mercy Corps developed a new business model and pilot tested it in one region of Guatemala. The model utilizes a micro-franchise approach, in which independent, locally-owned rural stores - Sustainable Community Health Stores (SCHS) – are established by rural entrepreneurs and supported by the systems of a larger company. Individual stores pay a franchise fee enabling them to purchase medicines at wholesale prices from the parent company, access credit, utilize a logistics and information system, and benefit from network branding and marketing. Stores agree to maintain consistent branding and meet all parent company standards.

Mercy Corps began by operating as the parent company. Product for the health stores was provided by Farmacias de la Comunidad (FdeC), a national retail pharmacy chain and health product distributor. Over time, Mercy Corps and FdeC agreed to transfer management roles to FdeC with a plan to hand over full ownership of the health store network by the end of donor-funding. The goal was to ensure a sustainable, profitable franchise system. This process is underway as of January 2012, with a completed business plan and financial projections to expand the stores nation-wide within two years.

Originally, Mercy Corps considered working with an NGO that distributes pharmaceuticals through a botiquine system. But that relationship was discontinued when it became clear that the partner NGO was content with a subsidized model and unwilling to consider private ownership of SCHS units. For the goal of ensuring sustainable goods and services, it was essential to develop a model that did not rely on donor-support in the long-term.

14 http://www.ifad.org/operations/projects/regions/pl/factsheet/guatemala_s.pdf

Role of Private Sector:

Farmacias de la Comunidad (FdeC) is the primary private sector partner. Their role for the initial pilot phase of the program was to supply pharmaceutical products to the health stores and provide product knowledge training. As the project evolved, FdeC became more involved with the overall program and more active in designing a future strategy. This included providing direct technical support and capacity building to SCHS operators (including information on basic health, business management and product knowledge) and hiring staff to support and eventually manage the store network. The sustainability plan for the SCHS program has FdeC taking over ownership of the network and, after a transition period, Mercy Corps stepping away entirely.

Role of Mercy Corps:

Mercy Corps' role was to design and pilot a new business model, conduct results measurement, draft a business case and identify a private sector partner actor to take over the business. This involved setting up a pilot group of successful health stores, a contractual system for joint management, and a stock supply network. It included training store owners on business skills and providing direct loans to purchase initial inventory.

Mercy Corps scanned the environment for potential private sector partners who could both supply the medicines required and eventually assume responsibility for the store network. Once FdeC was involved, Mercy Corps gradually brought them onboard and made the case for the SCHS network. Mercy Corps worked with FdeC to develop a business plan and financial projections and to work gradually to transfer network management from Mercy Corps to FdeC.

Role of the Funder/Investor:

The intervention design of SCHS was initially driven by donor interest to respond to the community's lack of health products and services in rural areas. The Linked Foundation wanted to respond to the need following a market-driven, sustainable approach centered on building a social business model. They were not interested in supporting a program that created dependency. The Linked Foundation has been an active and ongoing partner helping drive and deepen private sector involvement.

Key Lessons Learned and Implications for Future Programs:

1. *New social enterprises established under donor-funding, especially those that require significant initial support and considerable private sector involvement, need to have an exit strategy.*

The initial business model for SCHS had the intention that the program and the franchisees evolve into sustainable entities that would no longer require donor subsidies or Mercy Corps intervention. At the same time, to prove viability of the concept, Mercy Corps directly managed the store network and provided support for training, capacity building, and financing to the franchisees. This support will continue to be required as the network expands to new entrepreneurs in new regions as part of the scaling necessary to achieve sustainability. Recognizing that contradiction, the program team emphasized and reinforced the eventual ownership transition of SCHS from Mercy Corps to FdeC. This included FdeC involvement on key decisions and joint development of a business plan. While this partnership development intensified in year 3, it would have been better to start the process earlier and have more time for a gradual transition.

Implications for future programming

When a donor-funded program establishes or expands new private sector entities with the goal of being financially and technically sustainable, an exit strategy and plan must be devised from the beginning. This can be challenging due to potential need for subsidies and technical support, proving a concept via pilots, and managing expectations around pilots and scale-up. Active management of this issue is vital, especially to ensure that our private sector partner understands our exit strategy and their role in that, and is an ongoing process as the program matures and the strategy evolves. The earlier a partner can be brought into the management process and take on increasing responsibilities, the smoother the transition will be. Having a business plan that clearly outlines a future, non-subsidized operating model sets expectations, and is therefore vital that it is developed jointly with the private sector partner.

2. *Balancing development interests and the private sector interests requires flexibility and compromise.*

Our initial criteria for the health store entrepreneurs was to recruit individuals who had some health experience – "health promotora" – because we expected them to have the ethics and experience to better meet our social interest of providing health information and support services. This is contrasted with the informal street medication sellers previously operating in the target areas who are strictly motivated by profit. One of FdeC's primary interests is to

achieve breakeven as quickly as possible, which would be best supported by having more business-oriented store owners. We recognize that both sets of interests need to be satisfied and have worked to support our social agenda (better health) in a sustainable way within the context of financial sustainability. We have continually worked with FdeC to convey the need for this balance. Ultimately, as the network expands we need to be flexible with our criteria to meet the baseline sustainability requirements for the stores and the developmental goals.

Implications for future programming

We need to understand and meet the minimum interests of a private sector partner if we expect to keep them engaged in developmental efforts. Those interests may shift as new information is learned, a program is tested, or the market shifts. Retaining a flexible perspective can help understand and respond to changes. Open communication and an active relationship with our private partner are vital to understanding their interests and whether they are being adequately met by our engagement.

3. *Creating private sector businesses requires specialized expertise.*

When Mercy Corps initiated the SCHS program, our field and HQ teams had limited direct private sector experience or expertise, including developing business models or plans, creating franchise networks, and negotiating deals. They also lacked access to relevant technical tools (i.e. inventory management, cash flow management). The team recognized this gap and immediately set about developing skills and acquiring the tools independently through both internal and external research and networking. In the end, they were able to source the tools they needed, or when necessary create them, to support the program.

Implications for future programming

If Mercy Corps partners with the private sector we need to ensure our teams have the tools and expertise to engage effectively. This applies when we are creating a new social enterprise in support of our goals such as in SCHS, or when we are partnering with private firm in a more limited engagement. This especially includes recognizing where we have gaps in our understanding or expertise and bringing in the right internal or external expertise.

Photo: Lindsay Murphy/Mercy Corps, Guatemala, 2011

5. Tools and Tip Sheets

The PSE Toolkit contains eight tools and 17 tip sheets, developed specifically for the toolkit based on Mercy Corps field and headquarters input, or adapted from field-tested development tools or guides. Many of these are applicable for multiple engagement stages.

Tools:

There are eight tools in the PSE toolkit, each supporting one or more stages of engagement identified in Chapter 3.7 (pg. 33). The tools can be adapted to fit the context, resources and existing knowledge of a specific program. It is anticipated that many of these will be used in a shorter/simpler manner in some stages when a high-level scan is appropriate and more thoroughly in others when in-depth research may be necessary. Many of the tools are research tools designed to collect and interpret information and include development of a questionnaire or survey.

Each tool has same basic format:

- Purpose
- Description
- Engagement Stage(s) Best Supported
- Expected Output
- Key Activities and Reporting
- Other Resources

The most up-to-date version of each of these tools can all be found in the Digital Library.

Tool	Objective
Business Sector Scan	To help identify the business sectors where we believe there is opportunity to engage the private sector, and to help focus relationship building efforts and our exploration of program partnerships.
Firm Identification	To identify potential private sector firms working in targeted sectors and help create a map of those firms for potential future engagement.
Business Enabling Environment Assessment	To identify the formal and informal business enabling environment (BEE) rules and norms that impact private sector activity in a given context.
Due Diligence Assessment Tool	To structure the research into the potential risks and compatibility of a potential private sector partner.
Investigating Interests and Incentives	To better understand the interests and incentives of private sector partners and how our development interventions interact with or affect those interests and incentives.
Feasibility Assessment	To evaluate a potential private sector partner for feasibility on the administrative, fiscal, technical, legal, political, and social/ethical levels.
Stakeholder Analysis	To identify key stakeholders, and evaluate their influence and interest regarding private sector engagement with Mercy Corps.
Relationship Assessment Tool	Assess from a PSE program perspective; whether we are we on track to have an effective relationship with a private partner that will keep them engaged and active.

Tip Sheets:

There are 17 Tip Sheets in the PSE toolkit. These are one or two-page stand-alone "snap-offs" with practical guidelines focused on key aspects of engagement.

The most up-to-date versions of each of these tools can all be found in the Digital Library.

Tip Sheet	Objective
Market-Driven Development Principles	Summarizes our seven strategic principles that guide our market development work globally.
Strategic Guidelines for PSE	Provides quick reference to the six core Strategic Guidelines supporting PSE programs.
Principles of Partnership	Provides a strong foundation for partnership and contributes to effective working relationships.
How to Talk	To better understand the challenges of communicating with the private sector.
How to Interact	Specific guidelines that help make and maintain effective contacts with the private sector.
How to Engage with a MNC	Recommendations to support working with multi-national corporations either at headquarters or with in-country subsidiaries.
Building Connections with the Private Sector	Helps making, building and sustaining connections with the private sector.
Facilitation	To help understand facilitation as it applies specifically to private firms, including a set of principles of facilitation.
Reviewing Financial Information	To help evaluate the financial health of a private sector firm and guide you through reviewing income statements and balance sheets.
Working with Co-ops and Business Groups	Explains advantages and disadvantages of working with existing co-ops (or other business groups) or forming new groups.
Understanding Business Plans	Tips to understand the purpose and elements of business plans.
Key Challenges with PSE Programs	Identifies and categorizes the most common and critical issues that arise when engaging the private sector in our development programs.
Making Presentations	A set of tips on how to construct and deliver effective formal and informal presentations to private business partners.
Negotiation with the Private Sector	Top tips for negotiating with the private firms.
Smart Subsidies and Financing	Provides an overview on why, how and other important considerations related to making investments or providing funding to private businesses.
Understanding MoUs	Helps understand the importance of MoUs. Includes tips to help creating MoUs, description of MoU sections, standard Mercy Corps MoU template, and samples of PSE MoUs.
Communication about PSE Programs	Guidelines about how to communicate about private sector partners considering issues such as confidentiality, branding and market distortion.

6. Annexes

6.1. Donor Perspective

Many of the organizations that fund Mercy Corps encourage active engagement of the private sector in our poverty reduction work. These donors fall into three categories: government (bi-lateral) donors, private foundations, and the private sector – each of whom may also be engaged as a program partner. The differences in how much support exists for PSE among donors reflects each donor's general view regarding the role of the private sector in humanitarian and development work. That view ranges from believing that the private sector has no place in this work, to believing the private sector is a critical actor in this work.

I. Government (bi-lateral) Donors:

There are four bi-lateral donors who are significant Mercy Corps donors: US Agency for International Development (USAID), Swiss Agency for Development and Cooperation (SDC), the UK Department of Foreign and International Development (DFID) and the European Commission (EC). Each currently has a slightly different viewpoint on the importance and centrality of PSE programming.

USAID: USAID is increasingly looking for market-driven programs that include direct partnerships with private sector actors and a heavy emphasis on long-term solutions. Some RFAs now require that signed agreements with private sector actors be included in a proposal in a manner similar to how NGO or CSO partnerships have been handled. A key aspect of USAID funding of programs that involve PSE is the inclusion of leverage and cost-sharing. Leverage is a quantifiable contribution that emphasizes "strategic value or contribution coming from the resource partner."[15] Cost sharing is the part of the project or program that is not paid for by USAID, and can be satisfied with other funds, materials, labor, etc. While there appears to be growing interest and support at USAID for PSE programming, there are some overarching trends and challenges to consider:

1. The average USAID grant often has a time-frame and funding amount that may be insufficient to measure progress in a program that has engaged the private sector in a commercial partnership due to a need to pilot, and validate ROI and scalability.
2. USAID often faces political demands to show quick results, which are passed on to its implementing partners. This can be challenging for Mercy Corps, given our need to articulate a long-term vision when working with a private sector partner, even if USAID is not directly supporting that goal.
3. USAID may require specificity in the program design, which may conflict with the flexibility often demanded by a PSE project.

There are three primary avenues for USAID funding in relationship to PSE programs.

- Standard RFA/APS: This is the most common channel for USAID funding. Under a standard RFA, USAID may ask for cost sharing and recently there have been requests for leverage.
- Global Development Alliance (GDA): This stream of funding is directly focused on PSE. The GDA combines "the assets and experience of strategic partners, leveraging their capital and investments, creativity and access to markets to solve complex problems facing government, business, and communities."[16] Mercy Corps has been granted two GDA grants including, *Strengthening Market Chains for Afghan Grapes and Pomegranates*, which includes obtaining fair-trade status for grapes and exporting them to Europe. GDA funding typically comes from in-country missions, who often lack sufficient funds, or may come from general GDA funds in Washington D.C., although this avenue is also typically under-funded and under-promoted.
- Development Innovation Ventures (DIV): Initiated in 2010, DIV is a USAID program to fund highly innovative, scalable solutions to core development challenges. The goal is to develop innovations that can leapfrog existing development approaches in the same way that microfinance has done. The program recognizes that existing USAID structures do not adequately support breakthrough innovations, suggesting the potential for synergy between DIV and PSE programming. DIV has a three stage funding model starting from seed funds ($100,000) to grants of up to $15 million.

15 USAID. GDA Website. http://www.usaid.gov/our_work/global_partnerships/gda/
16 USAID. GDA Website. http://www.usaid.gov/our_work/global_partnerships/gda/

DFID (UK Department of International Development): There is a growing recognition at DFID that the private sector can play a pivotal role in development and humanitarian work. This approach is reflected in a recent policy report, *The Engine of Development: The private sector and prosperity for poor people* (see Resources section). DFID recognizes a historical connection between high economic growth and poverty reduction and the crucial role of the private sector in that growth. Their new approach is to increase the engagement of the private sector with a primarily pro-poor orientation.

DFID has outlined a set of principles that guide their private sector engagement efforts including a fundamental commitment to poverty reduction, a careful use of subsidies to the private sector to spur investment and activity, and recognition that a fair competitive business environment is vital. Their efforts are focused on engaging the private sector to generate jobs and services for poor people, and supporting the reform and improvement of the business environment, including regulatory, infrastructure and financial reforms. This orientation has been observed in the types of tenders DFID has produced, which include support for iterative design approaches to sustain adequate program piloting, and support for the M4P market development approach.

SDC (Swiss Agency for Development and Cooperation): SDC recognizes that the type of systemic changes and poverty reduction they support requires complex and thoughtful program designs, and they have adopted an approach that is a direct reflection of that. The core aspect of that approach is a willingness to engage in an inception phase – typically the first six months of a program – during which time they expect an implementing partner to complete extensive research and design activity, and to refine its proposed program design, as necessary. Essentially, SDC will accept and fund a more general initial proposal. Following that, they work closely with the implementing partner to develop a final proposal that best meets the program goals, and fits the previously stated program budget. This is a very progressive approach and helps ensure that the final program design will be sharper and more effective. Core to this approach is recognition that flexibility is essential for a program that engages the private sector. This approach strongly aligns with M4P, which requires detailed market analysis to determine the best strategies and sectors for focusing facilitation efforts, and recognizes that it takes time to effectively complete that market analysis.

This is a relatively new approach at SDC and our *Alliances* program in Georgia, started in 2008, is our first full engagement under this approach. SDC also considers NGOs as key partners and is very supportive of having an NGO, rather than a private sector entity, take the lead on development projects.

EC (European Commission): The EC is very strict about the involvement of the private sector in projects or programs supported by EC funds. At the most fundamental level, their funding cannot be used to increase the profitability of a private entity, even if that profitability is directly benefiting program participants. Private businesses cannot be equal partners in an EC-funded program and we cannot make investments or provide subsidies to develop the capacity or profitability of a private business. What we can do is bring the private sector in as advisors or as co-sponsors, and we can provide technical support to them through consultants or BDS providers. These restrictions stem from legacy EC policies that very rigorously control and discourage support to one private business or sector over another, even when the goal of that support is to spur economic activity and alleviate poverty. Operationally, this policy essentially makes meaningful, equal partnerships with the private sector in our program work virtually impossible under an EC-funded program.

II. Foundation Donors:

Large foundation donors generally fall along the same spectrum as government donors regarding their support for PSE programs. At one end there are a group of foundations that very strongly believe in the value the private sector can bring to this work. This group is anchored by the Gates Foundation, and includes others, such as Ashoka and the Skoll Foundation. These organizations are typically very astute about the perspective of the private sector. They emphasize defining the role of the private sector in a program and often require PSE to be a core part of a program's design, to the degree that they sometimes need convincing that a non-profit adds value. They often see the NGO as a temporary player and require a scale and sustainability plan that addresses the temporary nature of a NGO and donor's involvement. These foundations directly fund private businesses as well.

At the other end of the spectrum are a group of foundations that have not had strong viewpoints or requirements about the inclusion of PSE in programming. This group includes the Kellogg Foundation, the Ford Foundation, the Rockefeller Foundation and others. However, we are observing a shift in this group and see that they are starting to look for market sustainability, cost recovery and business partnerships.

Mercy Corps receives support from small foundation donors, such as the Linked Foundation and Vibrant Villages, that are concentrated on programming that actively engages the private sector. Oftentimes, because these foundations are

providing relatively small grants, they look for program designs that directly address sustainability and scalability that will leverage their contribution. As such, partnering and cost-sharing are often a requirement and they may request an implementing partner to identify other funding sources for a specific program. This helps them determine the legitimacy of the program design and funding strategy.

Typically, these foundations will have a core strategy and are looking for program designs that fit that strategy. For example, the Linked Foundation is expressly interested in programming that improves women's health (they support the SCHS program in Guatemala). The Linked Foundation considers their grants as investments or seed capital to support new approaches to social change, and not donations that necessarily support a set of defined short-term outcomes. In general, the smaller foundations are also more willing to take risks, supporting program designs that may be more experimental or take place in less stable contexts or countries.

III. Private Sector Donors:

When the private sector funds a Mercy Corps program they do so either as a grant, an investment, or a donation, or in some cases a combination of these. In some circumstances they may be making a grant to support the commercial success of the project. In this instance, it is important to recognize that the grant may have a limited time frame and is effectively a subsidy.

Alternatively, the private sector donor may make an investment in a business entity, often alongside Mercy Corps or other stakeholders. In this instance the investment is made in order for the donor to enter a new market segment or to develop a new product, and the donor/investor is typically motivated by an equity opportunity or by their principles (social investment). An example of this would be the investment in the Bank Andara project in Indonesia by Developing World Markets, an asset manager and investment bank.

Private sector donors also provide donations to specific PSE programs. In this situation the donor may be more motivated to fund the program or project in support of their CSR goals, but at the same time they are engaged with Mercy Corps to connect that support to the core business interests of their corporation. The CHAI tea program, supported by Starbucks/Tazo in India, is a good example of this. In this instance the corporation is supporting community development in order to improve livelihoods in the regions where they source their product.

While we certainly acknowledge and appreciate private sector partners who only make donations, if they do not actively engage in program implementation we do not consider them private sector partners for the purposes of this toolkit. An example of this is Western Union, who has provided financial support for Mercy Corps programs in over six countries with a CSR mandate but who has not engaged Mercy Corps to connect with the core business interests of the corporation, i.e. international remittances.

6.2. Public / Government Perspective

When they function as a donor, the government perspective on PSE most typically is demonstrated by their funding and programming priorities and policies. (See *Donor Perspective* above.)

More generally, in countries where Mercy Corps operates, government policy concerning PSE programs intersects with our work in two areas: 1)policy alignment and creation of a business enabling environment, and 2) procurement policies and local economic development. Much of our work manifests itself in public private partnerships (PPP), technically defined as a mechanism through which the government shares responsibility for the provision of public goods and services with the private and civil society sectors. PPP are often utilized to take advantage of the innovation and efficiency of the private sector with direct support and material assistance coming from the government, or are used to connect the government directly to the efforts of the private sector. (For more detail, see *Public & Private Sector Partnerships* on pg. 24).

Policy Alignment and Business Enabling Environment: Government and private sector partners may be brought together in an effort to ensure a common understanding about the policy and regulatory environment related to development programs and to enhance the ability of private businesses to function and thrive. One example of such a program is the PUSH program, aimed at developing private-sector-managed micro-sanitation systems in Indonesia. Mercy Corps engaged multi-level government sanitation institutions to join an advisory board that looked at how best to integrate project activities into various government programs, and to review feasibility based on government regulation and planning.

Procurement Policies and Local Economic Development: Governments may engage in a PSE program to satisfy two related goals: 1) procurement policies that call for outsourcing of government goods and services; and 2) activities that better support or spur local economic development. A good example of this is the MORE Program in Mongolia, in which the government has a policy of encouraging external procurement at the local level. In response to this, Mercy Corps engaged the private sector, CSOs, and local government officials in designing a program that facilitates local procurement of goods and services, and at the same time creates new markets for rural businesses.

Governments also often have mandates to promote local economic development and Mercy Corps can facilitate linkages between government officials, private sector partners and communities to more effectively achieve these goals. A good example is the MERP II program in Indonesia that focused on supporting expansion in the cocoa sector. Mercy Corps facilitated the training of government agriculture extension officers who subsequently trained program participants. This program also included support provided by a private sector partner, Mars Symbioscience, who provided training on advanced cocoa production and helped develop a local resource center.

Key Considerations:

- Government Interests: The public sector has interests that are likely different from the private sector or our program participants. Understanding those interests is important, and finding appropriate incentives to meet government interests can be highly beneficial.
- Relationships matter: Building governmental support for our programming is crucial and can be done by establishing relationships with public officials, especially at the regional and local level.
- Disconnects are common: The government's role may be articulated at a national or regional level, but adoption at local levels can be challenging due to a lack of budgetary control, or for other political, social, or cultural reasons. Recognizing those disconnects and mitigating their impact can be crucial for a successful PSE program.
- Government and sustainability: Engaging the public sector can be one way for ensuring the sustainability of program interventions. Their interest in the social goals of PSE can be leveraged to help ensure that those goals are maintained. For example, if a PSE program is providing a public good (i.e. clean water, public sanitation, rural electrification, etc.) at an affordable price, then the government's engagement may help ensure the private sector maintains that service and pricing if feasible, after they have achieved sustainable ROI, or Mercy Corps is no longer engaged.

6.3. Private Sector Engagement Capacity Statement

Photo: MICRA Philippines/Mercy Corps, Philippines, 2010

It is estimated that almost half of the world's population, 3 billion people, live on less than $2.50 per day. The global economic crisis, conflict, natural disasters, and environmental impacts threaten the fragile livelihoods of these low-income earning populations. However, the world's poor demonstrate impressive resiliency, coping strategies and entrepreneurial energy. Driven by local needs and market conditions, Mercy Corps engages communities, government and the private sector to turn crises into opportunities. Our global team of 3,700 professionals is improving the lives of 14.5 million people in nearly 40 countries.

The engagement of the private sector in the poverty alleviation agenda can benefit both businesses and the poor. Private sector engagement may involve a variety of actors - from tea plantation owners in India, to animal breeders in Georgia, from a health supply distributor in Guatemala to small business development specialists in Mongolia, from spice traders in Nepal to food cart franchisees in Indonesia. These partnerships are effectively contributing to Mercy Corps' mission of building secure, productive and just communities. Actively and productively engaging the private sector, along with the public and civil society sectors, is a fundamental part of Mercy Corps' Vision for Change and seen as critical to achieve impact and having the potential to achieve wide and sustainable change.

There are three key ways in which engaging the private sector increases programmatic impact; 1) increasing ***sustainability;*** 2) reaching greater ***scale*** and; 3) bringing ***leverage***. *Sustainability* is supported by the private sector's fundamental motivation towards profitability. When a partnership with Mercy Corps offers an opportunity for the private sector to achieve adequate profit, or return on investment (ROI), they have an incentive to support and invest in it over a long-term period. In a well-designed program this can improve the likelihood of achieving the desired inclusive economic growth. ROI includes not only financial profit, but other business objectives such as enhancing its reputation. *BPI Globe (BanKO)*, in the Philippines is an example of a program that has been designed from the outset to achieve sustainability. Under that program, Mercy Corps is partnering with BanKO, a consortium of Philippine financial institutions, to implement branchless banking with the target to reach 1,000,000 previously unbanked clients through 2,000 agents, and reach financial sustainability within 18 months.

Expanded programmatic *scale* is often achieved as a result of the financial resources the private sector can access and its ability to expand. Greater scale may be geographic, reaching beyond the initially targeted group or area, or may result in an expanded scope of complementary products or services, both of which make possible wider-reaching benefits for the poor. Under *The Sustainable Community Health Stores (SCHS)* program in Guatemala, Mercy Corps partnered with Farmicias de la Communidad (FdeC) and tested a business model to create a distribution channel that improved availability, access and utilization of health products in poor, rural communities. Recognizing the financial opportunity and the potential for expanding assistance to the poor, in 2012 a business plan was developed that would scale from 31 to 2,440 stores throughout Guatemala within an 18-month period, thereby reaching a market of 440,000 families, or 2.2 million people. This expansion is projected to happen with minimal donor or Mercy Corps support as the investment is largely via the private sector.

Leverage results when the private sector absorbs a financial contribution or role that may be otherwise conducted by a development actor. Mercy Corps Indonesia's *Program of Urban Sanitation and Hygiene Promotion (PUSH)* leveraged the capacity and expertise of the private sector including manufacturers that build and install septic tanks appropriate for highly dense populations and supply maintenance services; a MFI that provides loans to enable affordable terms for the installation of sanitation systems, and PD. PAL Jaya, a state-owned waste water treatment company that handles removal of the sludge and transport to the final treatment site

Private Sector Partnerships to Improve Linkages between Markets and Communities

Traders and wholesalers play a critical role in connecting farmers and producers to the market. Partnering to facilitate improved connections is a common tactic used to engage the private sector. Mercy Corps Guatemala has formed a partnership with Hortifruti, a local buyer supplying the domestic Walmart distribution network with locally-sourced produce. This partnership is a part of the USAID and Walmart supported *Innovative Market Alliance - Making Value Chains Work for Rural Entrepreneurs (IMARE)* program. In this program, growers formed producer groups and created

customized farm management plans; and increased their capacity in good agricultural practice (GAP), post-harvest, and business management and market information skills. Mercy Corps facilitated linkages between the producers and Hortifruti/Walmart, resulting in improved access to more profitable markets on a sustainable basis. This resulted in producers being able to better plan their planting and production calendars to meet market demand. By 2010, 567 growers were organized into 40 producer groups with annual sales of $1.2 million to Hortifruti/Walmart, an increase from $40,000 in the first year of IMARE. Producer groups also had $781,000 in sales to the informal market, IMARE producers experienced an average profitability increase of 25% for each hectare planted. A total of 2,434 jobs were generated during the three years of the program.

The Swiss Agency for Development and Cooperation (SDC) funded program, *Market Alliances Against Poverty (Alliances)*, in the Samtkse-Javakheti Region of Georgia, engages private sector actors in partnerships between grower groups, meat and milk processors, market information providers, training and extension providers, and traders, wholesalers and intermediaries. Alliances focuses in five key areas: improved food-safety and hygiene in the dairy and meat sector, improved animal nutrition, improved animal breeding practices, improved market access and terms of trade, and improved disaster risk management. Mercy Corps works with and relies on the private sector to develop its capacity to deliver services, rather than directly providing such services ourselves. The result has been that during in the first year private sector partners provided skills-training to 3,500 farmers on improved techniques resulting in 450 adopting improved nutritional practices, and 467 adopting improved breeding practices. This systemic, or market development approach often has a gradual trajectory while focusing heavily on sustainability and the involvement of key stakeholders. In 2010, 4015 producers engaged with the *Alliances* program earned $226,000 increased income and experienced an 80% reduction in transaction costs for their outputs.

Partnering with the Private Sector to Rebuild Conflict or Disaster Affected Economic Sectors

Where capacity in some economic sectors has been severely damaged due to conflict or disaster, Mercy Corps partners with the private sector to rebuild businesses important to inclusive economic recovery. Mercy Corps' USAID Global-Development-Alliance-funded program *Strengthening Market Chains for Afghan Grapes and Pomegranates* has rehabilitated production and sales in a conflict-affected region. Mercy Corps partnered with 300 Afghani grape growers, the Parwan Raisin Producer Cooperative (PRPC), to improve their skills and knowledge of vineyard production practices. A key partner, the Bagram Fruit and Non-Alcoholic Beverage Co. Ltd (Bagram), which had not been fully operational since 1982, rehabilitated its capacity to process PRPC grapes for raisin export and to produce grape juice. As a result, 50,000 bottles of grape juice were produced in September 2010. Mercy Corps facilitated a partnership between the PRPC growers and Fullwell Mill, a UK-based food supplier, to provide fair-trade certified grapes to the European market. This included an agreement between the Fairtrade Labeling Organization International (FLO) and the growers in Afghanistan to ensure their final product met stringent fair-trade requirements. In 2010, this resulted in the export of 40 metric tons of raisins to Europe to be subsequently sold under the fair-trade label, which brought $51,400 to PRPC growers.

Facilitating Private Sector Linkages to Support Diverse Program Goals and Inclusive Market Systems

Important to the development of inclusive functioning market systems is a thorough understanding by stakeholders of the market and local context. Mercy Corps accomplishes this in engagement with the various private sector actors important to a market system, building their capacity and aligning their incentives to most effectively deliver goods and services. Market systems exist in multiple sectors and achieve a range of developmental goals. In Jakarta Indonesia, Mercy Corps determined a high need to reduce malnutrition rates among poor children under five years old. Under the *My Child's Café Food Cart Program, Kedai Balitaku (KeBAL)* a scalable business model to improve access to nutritious food, connects neighborhood-based, for-profit Cooking Centers with independent street vendors. KeBAL was structured as a micro-franchise system to ensure cohesive branding, product consistency and quality, while enabling enough flexibility and outside investment to achieve scale. During the initial pilot over 400 children less than five years old were regularly being served at market prices. The street vendors averaged 30% profit margins earning approximately $130 per month. Equally important, demand far exceeded supply, with vendors regularly selling out. A customer feedback survey found that the KeBAL product is appealing when compared to alternatives based on criteria including menu selection, taste, appearance, price, nutrition, and service. This business model is highly scalable with expansion under way with the goal of reaching 500,000 children achieving financial sustainability by the end of 2013.

6.4. Glossary of Private Sector Engagement Terms[17]

Bottom of the Pyramid (BofP) – An economic development approach or business outreach strategy that targets the poor as buyers, sellers and entrepreneurs, and considers it critical to view them as an untapped market of consumers and producers.

Business – A person, partnership, or corporation engaged in commerce, manufacturing, or a service; profit-seeking enterprise or concern. This term is interchangeable with *company* and *firm*.

Business case – The positive business rationale for working in the public interest.

Business enabling environment reform (BEE) (Also known as **Business environment reform (BER)** BEE reform seeks to address problems, barriers, limitations, and flaws in the business environment with the goal of reducing the cost of doing business, reducing risks, developing markets and increasing competition.

Business model – Describes the method or means by which a company tries to capture value from its business. A business model may be based on many different aspects of a company, such as how it makes, distributes, prices or advertises its products.

Business plan – A formal statement of a set of business goals, the reasons why they are believed to be attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

Company – A group of persons united or incorporated for joint action, especially for business. This term is interchangeable with *business* or *firm*.

Corporate citizenship – The management of the totality of relationships between a company and its host communities, locally, nationally and globally. Corporate citizenship is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Its aim is to create higher standards of living, while preserving the profitability of the corporation.

Corporate culture – The attitudes, beliefs and values which are a part of the business and the way in which it operates.

Corporate governance – A system by which corporations are directed and controlled, it specifies the rights and responsibilities among different participants in the corporation, such as the board managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. It also provides the structure through which company objectives are set, and the means of attaining those objectives and monitoring performance.

Corporate social responsibility (CSR) – A continuing commitment by businesses to behave ethically and contribute to improving the quality of life of their workforce and their families, as well as of the local community and society at large. CSR encompasses not only what companies do with their profits, but also how they make them.

Corporate values – The operating philosophies or principles that guide a company's conduct and its relationship with the external world.

Crowding-in – The central process in – and purpose of – facilitation through which interventions catalyze or bring other players and functions into a market system so that it works better for the poor. Crowding-in can result in enhanced breadth (more transactions in the core of a market), depth (supporting functions) or reach (new areas or markets).

Donor vs. investor – A donor is a financial supporter that does not have any kind of ownership role in a private sector business created or supported by a Mercy Corps program. An investor is a donor who is making a financial or other material contribution to a program and has received a share of a private business in return.

Enabling environment – An environment of policies, regulations, institutions, and overall economic governance which allows for economic growth.

17 Partially excerpted from: International Alert, (n.d) *Sustaining Business and Peace; A resource pack on Corporate Responsibility for Small and Medium Enterprises*. http://www.international-alert.org/resources/publications/sustaining-business-and-peace

Enterprise – Any entity engaged in an economic activity, irrespective of its legal form. This includes self-employed persons and family businesses engaged in craftwork or other activities, and partnerships or associations regularly engaged in an economic activity.

Externalities – Negative or positive spill-over effects that are not reflected in a market price.

Facilitation/facilitator – Action or agent that is external to a market system but seeks to bring about systemic change within a market system in order to achieve the objective of poverty reduction. Importantly, a facilitator does not take on a direct market role.

Firm – A partnership or association for carrying on a business. This term is interchangeable with *company* and *business.*

Inclusiveness – A business is considered to be inclusive when it considers the impact of business decisions on a community, and shares benefits of profit-making and growth with it.

Interconnected markets – A market system which, as well as being a market in its own right, constitutes the supporting functions or rules of another market system.

Lead firms – Businesses capable of exerting a leading influence on other firms and other players because of, for example, their size or their reputation for innovation.

Making markets work for the poor (M4P) – This is a broad development approach which stimulates market systems and market actors to work more equitably for disadvantaged groups. Projects could, for example, develop linkages between the poor as a consumer group interested in improved electricity/telecommunication services, or facilitate better access to food and health care, or by linking poor smallholder farmers to collectively secure better supply sources or higher-end customers.

Market – A set of arrangements by which buyers and sellers are in contact to exchange goods or services, the interaction of demand and supply.

Market player – Organizations or individuals who are active in a market system not only as suppliers or consumers but as regulators, developers of standards and providers of services, information and other supporting functions or rules.

Market development – Sub-field of enterprise development focused on the poor's participation in and benefit from existing and potential markets in which they interact as producers, consumers or laborers. Market development focuses on systematic change and strengthening institutions for sustainability with development agencies acting as a facilitator rather than a direct intervener.

Market linkages – One or more organizations or processes that facilitate the flow of activity between two or more elements of a supply chain, and support end-to-end integration of the entire supply chain.

Market system – The multi-player, multi-function arrangement comprised of three main sets of functions (core, rules and supporting) undertaken by different players (private sector, government, civil society) through which exchange takes place, develops, adapts and grows.

Private sector – Businesses ranging from informal microenterprises to large-scale formal enterprises, usually involved in product delivery and associated product development and skills enhancement.

Public/private partnerships (PPP) – A mechanism through which the State shares responsibility for the provision of goods and services with the civil society and the private sector.

Rules – Formal (laws, regulations, standards) and informal (values, relationships, social norms) controls that provide a key influence in defining incentives and behavior in market systems.

Shared value: The policies and operating practices of a company that enhance their competitiveness while simultaneously improving the social and economic conditions in the communities in which the company operates.

Social auditing – The systematic evaluation of an organization's social impact in relation to standards and expectations. A method to evaluate the non-financial performance of an organization.

Social profit – The value created in terms of societal respect and acceptance as a result of a company being accountable to the community through responsible business practices.

Socially responsible investing (SRI) – Integrating personal values and social concerns with an investment decision. SRI considers both the investor's financial needs and an investment's impact on society. Three key SRI strategies have evolved over the years: screening shareholder advocacy, community investment and social venture capital.

Strategic corporate responsibility (CR) – Continual method of reflecting, learning and integrating social responsibility into the business goals of a company.

Supporting functions – A range of functions supporting the core exchange of goods and services that helps the market to develop, learn, adapt and grow including, for example, product development, skills enhancement, R&D, financial services, coordination and advocacy.

Transaction – An agreement between a buyer and a seller to exchange an asset for payment, either in cash or some other form of mutually agreed value.

Triple bottom line (TBL) – The idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital.

Triple P – Short expression of Triple Bottom Line referring to the three Ps of people, planet and profit.

Value chain – Full range of activities required to bring a product or service from its conception to final consumers and disposal; implies a value-added at each stage. Value chains can be local, regional, or global, and may include input suppliers, producers, processors, transporters, and buyers.

6.5. Cross-Reference Table – Tools, Tip Sheets and Chapters

The table below lists each of the six stages of the PSE Engagement Model (chapter 3) and the relevant toolkit sections, tools and tip sheets that support that stage of the model

Engagement Stages	Relevant Toolkit Sections	Tools and Tip Sheets
3.1 CONTEXT ANALYSIS AND PRE-POSITIONING • Connect PSE to Mercy Corps goals • Map the private sector • Build relationships and investigate opportunities	1.1. PSE and Vision for Change 1.2. Defining PSE 1.3. Types of Private Sector Partners 1.4. Key PSE Attributes 1.5. Who Initiates a PSE program? 2.1. Strategic Guidelines for PSE 2.3. Private Sector Interest	• Business Sector Scan Tool • Firm Identification Tool • Business Enabling Environment Tool • Due Diligence Tool • Investigating Interests and Incentives Tool • Market Driven Development Principle Tip Sheet • Strategic Guidelines for PSE Tip Sheet • Mercy Corps' Principles of Partnership Tip Sheet • How to Talk with the PS Tip Sheet • How to Interact with the PS Tip Sheet • Engaging with an MNC Tip Sheet • Building Private Sector Connections Tip Sheet
3.2 ASSESSING A SPECIFIC PSE OPPORTUNITY • Mercy Corps Approach • Private Sector Interests • Program Strategies	All of Chapter 1 and 2	• Firm Identification Tool • Investigating Interests and Incentives Tool • Market Driven Development Principle Tip Sheet • Strategic Guidelines for PSE Tip Sheet • Mercy Corps' Principles of Partnership Tip Sheet • Facilitation Tip Sheet
3.3 PARTNER ASSESSMENT • Partner Types and Considerations • Feasibility Analysis • Business Models • Private Sector Interests and Incentives	1.3. Types of Private Sector Partners 2.3. Private Sector Interests	• Firm Identification Tool • Business Enabling Environment Tool • Due Diligence Tool • Investigating Interests and Incentives Tool • Feasibility Analysis Tool • Building Private Sector Connections Tip Sheet • Reviewing Financial Information Tip Sheet • Working with Co-ops Tip Sheet • Understanding Business Plan Tip Sheet • Key Challenges Tip Sheet
3.4 PARTNERSHIP DEVELOPMENT • Developing Relationships • Establishing Mercy Corps Credibility •Mapping Goals • Developing a Business Model	1.1 PSE and Vision for Change 1.4 Key PSE Attributes 2.1. Strategic Guidelines for PSE 2.2 Mercy Corps Approach 2.3 Private Sector Interest	• Investigating Interests and Incentives Tool • Stakeholder Analysis Tool • How to Talk with the PS Tip Sheet • How to Interact with the PS Tip Sheet • Building Private Sector Connections Tip Sheet • Understanding Business Plan Tip Sheet • Making presentations Tip Sheet
3.5 ENGAGEMENT AGREEMENT • Negotiation • MOU Development	1.4 Key PSE Attributes 2.3 Private Sector Interests	• Strategic Guidelines for PSE Tip Sheet • How to Talk with the PS Tip Sheet • How to Interact with the PS Tip Sheet • Negotiations Tip Sheet • Smart Subsidies and Financing Tip Sheet • Understanding MOUs Tip Sheet
3.6 ONGOING MANAGEMENT • Continued Engagement • Developing a Business Plan • Communication and Reporting • Monitoring and Evaluation	1.4 Key PSE Attributes 2.2 Mercy Corps Approach 2.4 Private Sector Interest	• Due Diligence Tool • Relationship Assessment Tool • Mercy Corps' Principles of Partnership Tip Sheet • Understanding Business Plan Tip Sheet • Key Challenges Tip Sheet • Communication about PSE Programs Tip Sheet

6.6. Resources and References

Following are internal and external resources focused on private sector engagement.

Mercy Corps Resources

Local Partnership Guide, February. 2011

This Mercy Corps resource consolidates our global expertise, lessons, field-proven tools and innovative models. It includes the Principles of Partnership that together provide a firm foundation upon which to build effective partnerships and a Partnering Framework that outlines a common process to how we work with most local partners.

https://mcdl.mercycorps.org/gsdl/docs/MCLocalPartnershipsGuide.pdf

Mercy Corps Negotiation and Influence Toolkit. 2011

Mercy Corps' Negotiation and Influence Toolkit features several tools you can use in your internal and external negotiations to build strong working relationships and get good substantive results.

https://mcdl.mercycorps.org/gsdl/docs/NegotiationandInfluenceToolkit.pdf

Mercy Corps Corporate Partnerships Due Diligence Guide. 2011

This updated guide explains Mercy Corps' approach to determining the possible risks and benefits of new corporate partnerships. It includes a step-by-step guide to conducting an analysis of those risks/benefits and provides web-based resources for conducting background research.

https://mcdl.mercycorps.org/gsdl/docs/DueDiligenceGuideVersion1.pdf

Mercy Corps Joint Investment and Entity Formation Policy. June 2011

This Mercy Corps Board-approved policy governs the formation of any new mission/program-related investment and the formation of any new legal entities, whether for-profit or non-profit and whether field or HQ based. This policy effectively replaces the Policy on Joint Ventures with For-Profit Entities.

https://mcdl.mercycorps.org/gsdl/docs/JointInvestmentEntityFormationPolicy.pdf

Access to Sanitation: Program of Urban Sanitation and Hygiene Promotion (PUSH): Final Report. January 2011

This is the final report on this 2-year project to pilot low-cost environmentally friendly sanitation models and to increase awareness of local residents and government about benefits of improved sanitation.

https://mcdl.mercycorps.org/gsdl/docs/Suez2008IndonesiaSanitationENVMTFinalReport.pdf

Energy For All (E4A) Timor-Leste Program Summary. June 2011

Fact sheet summarizing this program that will facilitate access to alternative sources of energy and renewable sources of fuel through sustainable market-driven approaches with a significant private sector engagement component.

https://mcdl.mercycorps.org/gsdl/docs/EC2010TimorLesteE4AProgrammSummary.pdf

Maluku Economic Recovery Programme II (MERP II). September 2008

Proposal for the 2nd phase of this project (subsequently funded) to strengthen or establish committees based around existing village structures, to identify and implement priority interventions that will fast-track local economic recovery to pre-conflict levels and beyond. Projects will support livelihood associations, and develop economic services and infrastructure.

https://mcdl.mercycorps.org/gsdl/docs/NZAid2008IndonesiaMERP2Proposal.pdf

MicroMentor Fact Sheet. n.d.

Overview of this program and the scaling strategy including product and service development, marketing and distribution, and revenue generation and sustainability.

https://mcdl.mercycorps.org/gsdl/docs/Aspen2009USMicroMentor2Proposal.pdf

MICRO, Haiti Micro-Insurance Program

Haiti Micro-Insurance Interim Report, July 2010. This interim program report includes an overview of the pilot program and description of achievements to date.

https://mcdl.mercycorps.org/gsdl/docs/MC2010HaitiMicroInsurancePilotIRFebJuly2010.pdf

MICRO: Innovative insurance for the poor (Haiti), Mercy Corps Innovations Competition Cover Report, Nov. 2011. This cover sheet to the Innovations Competition includes an summary of MICRO including the program design of the innovative aspects of the program.

https://mcdl.mercycorps.org/gsdl/docs/HaitiMicroInnovationsCompetitionFinalist2012.pdf

Palyja Project Report. February 2008

Project proposal to assist state-owned water company to increase access of piped-water to Jakarta slums.

https://mcdl.mercycorps.org/gsdl/docs/Palyja2008IndonesiaBanyuBiruProposal.pdf

XacBank Overview. 2004

Summary document that provides contextual background for this program, description of the relationship between Mercy Corps and our private partners, strategic overview of the program, and the bank's clients and markets.

https://mcdl.mercycorps.org/gsdl/docs/8.09.04 XacBank Overview.doc

External Resources

Cycle 1: Defining Lead Firms and Principles of Facilitation, FIELD LWA Consortium facilitated by Action for Enterprise. 2008

The first of five reports from this consortium, it starts with an overview of lead firms and facilitation and includes a description on sustainability, promoting relationships among value chain actors, choosing lead firms to work with, and structuring collaboration.

http://www.actionforenterprise.org/field1.pdf

Cycle 2: Methods For Identifying and Selecting Lead Firms. FIELD LWA Consortium facilitated by Action for Enterprise. 2008

This document begins with an in-depth examination of criteria for selecting lead firms that including the rationale for the criteria, possible indicators for determining whether lead firms satisfy each criterion. Tools and processes for applying these criteria are discussed with links to other related resources.

http://www.actionforenterprise.org/field2.pdf

Cycle 3: Structuring and Managing Collaboration with Lead Firms, FIELD LWA Consortium facilitated by Action for Enterprise. 2009

This report includes practical measures that development organizations can use to establish and maintain credibility with lead firms they are collaborating with. It includes a section on developing and negotiating successful MOUs, and guidelines for identifying and structuring cost share agreements.

http://www.actionforenterprise.org/field3.pdf

Cycle 4: Interventions with Lead Firms, FIELD LWA Consortium facilitated by Action for Enterprise. 2009

This report describes common interventions that NGOs undertake in collaboration with lead firms to increase their competitiveness and generate sustainable impact for MSME producers that the lead firms trade with and includes examples of such interventions.

http://www.actionforenterprise.org/field4.pdf

Corporate Social Responsibility. Department for International Development (DFID), n.d.

The report presents an overview of corporate social responsibility (CSR), the link between CSR and poverty reduction, and suggestions on what governments can do to promote CSR including regulation, facilitation, partnerships, and endorsement. It includes a view on the four forces that drive CSR engaged in a dynamic process: the consumers (marketplace), the investment climate, civil society and the workplace.

http://www.cbcsd.org.cn/susproject/qykcxfzbgzh/bgs/download/corporate-social-resp.pdf

Creating Shared Value, How to fix Capitalism and Unleash a Wave of Innovation and Growth. Michael E. Porter and Mark R. Kramer. 2011

This article provides a good overview of shared value, a business approach that links value creation for business to greater social impact.

http://www.fsg.org/tabid/191/ArticleId/241/Default.aspx?srpush=true

Doing Business with the Poor; a field guide, World Business Council on Sustainable Development. 2005

This guide discusses the concept of the sustainable livelihoods (SL) business model defined as "doing business with the poor in ways that benefit the poor and benefit the company." It includes a series of case studies that support various aspect of that model.

http://www.wbcsd.org/Pages/EDocument/EDocumentDetails.aspx?ID=101&NoSearchContextKey=true

The Donor Committee for Enterprise Development (DCED)

The DCED promotes economic opportunity and self-reliance through private sector development (PSD) in developing countries. It is the forum in which donor and UN agencies share their practical experience of PSD, and agree on guidance on good practice. It is also a leading source of knowledge about PSD.

http://www.enterprise-development.org

The Engine of Development: The private sector and prosperity for poor people. DFID. May 2011

This publication outlines the growing focus at DFID on the importance of the private sector for development. It reviews why and how DFID plans to engage with the private sector, and what results they expect to see from that effort.

http://www.dfid.gov.uk/Documents/publications1/Private-sector-approach-paper-May2011.pdf

Enterprise Solutions to Poverty, Shell Foundation. 2005

This is a report from the Shell Foundation on their view on how to support pro-poor enterprise development. Their underlying perspective is that a vibrant private sector with pro-poor enterprises and SMEs, fairly regulated by government and supported by INGOs that understand private business, is crucial to delivering economic growth that enables poor people to escape poverty.

http://www.shellfoundation.org/download/download.html

Forging an Effective NGO-Private Sector Partnership, Asian Development Bank (ADB). 2005

Short chapter that explores the nature of successful NGO-private sector partnerships, underlining key challenges and exploring the factors that lead to success. This is Chapter 3 of proceedings from an ADB workshop NGO-Private Sector Partnerships against Poverty: Lessons Learned from Asia, which includes workshop participants' case studies.

http://www.adb.org/NGOs/private-sector/chap3.pdf

Lessons Learned On MSE Upgrading In Value Chains. A Synthesis Paper, USAID. April 2006

Produced by USAID's Microenterprise Development office, this paper examines how micro and small enterprises respond to upgrading opportunities within the context of the value chains in which they operate.

http://microlinks.kdid.org/sites/microlinks/files/resource/files/ML4436_mr_71_upgrading_synthesis_paper.pdf

Making Markets Work for the Poor – HUB

M4P Hub is a knowledge and exchange forum for all those interested in making markets work better for the poor (M4P).

http://www.m4phub.org

microLINKS.

microLINKS is a dynamic knowledge-sharing Web site designed to improve the impact of USAID-funded microenterprise programs and activities. Created through USAID's Accelerated Microenterprise Advancement Project (AMAP), microLINKS shares cutting-edge research and serves as a meeting place through which visitors can share their own experiences and knowledge.

http://www.microlinks.org

Realizing a New Vision for Agriculture, World Economic Forum. 2009

This document summarizes this WEF initiative with 17 MNC's in the agriculture sector, and includes a framework for connecting business-led, market-based solutions to national development priorities.

http://www.weforum.org/reports/realizing-new-vision-agriculture-roadmap-stakeholders

Rethinking International Development in a Converging World. Accenture. 2011

This report describes the promise of cross-sector convergence between NGOs, business and government to development challenges, with the recognition that converged solutions are an important growing approach and are being driven by emerging consumer demand, increased NGO openness towards business, growing recognition from business leaders to NGOs, new technology, and other elements.

http://www.accenture.com/us-en/Pages/insight-international-development-converging-world.aspx

(Re)Valuing Public-Private Alliances, Mission Measurement and USAID. 2010

This report summarizes the current state of public private partnerships (PPPs), recognizing the complexity and the critical of measuring PPPs to assess whether they are meeting the needs of all partners. It further emphasizes the critical need to adopt an outcomes-based approach towards forming, measuring and operating PPPs.

http://www.missionmeasurement.com/files/Revaluing%20Public%20Private%20Alliances_An%20Outcomes%20based%20Solution.pdf

Revisiting Value Chain Initiatives, William Davidson Institute. 2010

This paper examines the different nature of donor-led vs. enterprise-led value chain initiatives. It further explores how a BoP perspective based on mutual value creation and collaborative interdependence can enhance the integration of these efforts.

http://pdf.usaid.gov/pdf_docs/PNADW442.pdf

SEEP Guide to Market Development and Resources

SEEP's practitioner-developed, web-based guide to the wide range of services and frequently asked questions about Market Development. Action for Enterprise (AFE) is a principal author of this guide.

http://www.seepnetwork.org/

Supporting Business Environment Reforms: Practical Guidance for Development Agencies, Donor Committee for Enterprise Development, 2008

This document is focused on giving development agencies practical guidance about how to improve their support for business environment reforms (BER) in developing and transition countries. It is focused on broad, high-level policy frameworks designed to assist BER support programs. The report includes a description of the BER process including diagnostics, design, and implementation and monitoring, followed by an articulation and definition of 15 principles of BER.

http://www.enterprise-development.org/page/business-environment-reform

Sustaining Business and Peace: A Resource Pack on Corporate Responsibility for Small and Medium Enterprises, International Alert. 2009

This document is a practical guide that SMEs can use to incorporate corporate responsibility (CR) into their operations. It defines CR as a methodology that expands traditional corporate philanthropy, includes a larger role for business, employs strategic partnerships with government and NGOs, has a focus on sustainability and integrates corporate values and inclusiveness.

http://www.international-alert.org/resources/publications/sustaining-business-and-peace

A Synthesis of the Making Markets Work for the Poor (M4P) Approach, Springfield Centre. 2008

This document explains the essence of the M4P approach. It is one of a series of three documents available from The Springfield Centre focused on M4P.

http://www.springfieldcentre.com/publications/sp0804.pdf

Value Chain Program Design: Promoting Market-Based Solutions for MSME and Industry Competitiveness, Action For Enterprise. 2007

This paper presents an approach that combines value chain analysis with the promotion of sustainable, market-based solutions framed around the needs of micro, small, and medium scale enterprise (MSME). It includes some useful tools that support building effective private sector engagements.

http://www.actionforenterprise.org/paper07.pdf

The following resources support assessing the Business Enabling Environment (BEE)

BizCLIR. USAID

This program assesses and reports on the specific constraints in the business environment at a country level based on a set of comprehensive indicators, providing a deeper perspective to the Doing Business Reports.

http://www.bizclir.com/cs/countries/overview

Business Environment Snapshots. World Bank.

This website includes aggregated economic and business enabling environment data drawn from other sources for 183 countries.

http://rru.worldbank.org/besnapshots/

Business Environment and Enterprise Performance Survey (BEEPS). European Bank for Reconstruction and Development and the World Bank. 2009

This is an ongoing survey program that captures the state of the private sector and tracks BEE reform over time. The website includes a detailed core survey as well as specialize surveys for the manufacturing and services sector.

http://www.ebrd.com/pages/research/analysis/surveys/beeps.shtml

Corruptions Perceptions Index (CPI). Transparency International

Website for the CPI which ranks 200 countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

http://cpi.transparency.org/cpi2011/

Country Compass Assessments. USAID

These publications assess countries receiving funding in 15 topics clustered around the economy, the private sector enabling environment, and pro-poor growth environment. The countries are organized in either as post-conflict or economic growth categories.

http://www.countrycompass.com/

Doing Business Reports. World Bank.

Annual publication from the World Bank provides an overview of the business enabling environment across the world. This site also includes some country-specific and regional reports although not all updated yearly.

http://doingbusiness.org/reports

Enterprise Surveys: World Bank.

This website provides comprehensive company-level data in emerging markets and developing economies. Business data are available on 130,000 firms in 125 countries.

http://enterprisesurveys.org/