



Building strong foundations: Effective partnering between companies and market systems programmes

Building on the common ground that has been established between a company and an MSP will need strong working relationships backed by formal agreements. This How To Note explores how and why

The Business Innovation Facility (BIF) is a £31m private sector development programme funded by the UK Department for International Development (DFID). The programme supports companies with commercially sustainable product and service innovations that benefit the poor. The programme is being implemented principally in Malawi, Myanmar and Nigeria. The How To note is one of a series that distils learning from all three countries after the first three years of the programme. Access all of the Notes at: www.bifprogramme.org/resources

Why this matters: Strong working relationships between and market systems programmes are essential to the success of any such programme. Working together to achieve tangible and robust change is a fundamental stepping stone to facilitating sustainable change across a market system.

Market systems programmes (MSPs) facilitate change by working with private and public sector actors. Some of this activity may be indirect – such as advocacy work to lobby for policy change – and some will be overt, working directly with a partner towards a common goal. The Business Innovation Facility (BIF) recognises that for the markets in which it is engaged, the incentives of the private sector provide the strongest leverage for change. Working with businesses is a dominant strategy for BIF and ensuring that well focussed and mutually beneficial working relationships are forged and maintained is critical to its success.

In forming partnerships with companies, it is not enough for an MSP such as BIF to have an arm's length relationship with them. It is only when trust and understanding is built up between an MSP and a firm that a full understanding of all the complexities of a business model and the effects of the political economy and other actors in the system can be gained. Developing an innovation that has a chance of success depends on the quality of this understanding, as well as a willingness for both parties to experiment and take some risks. This 'How to Note' explores what BIF has learnt about forming effective partnerships with the private sector in its work to date.



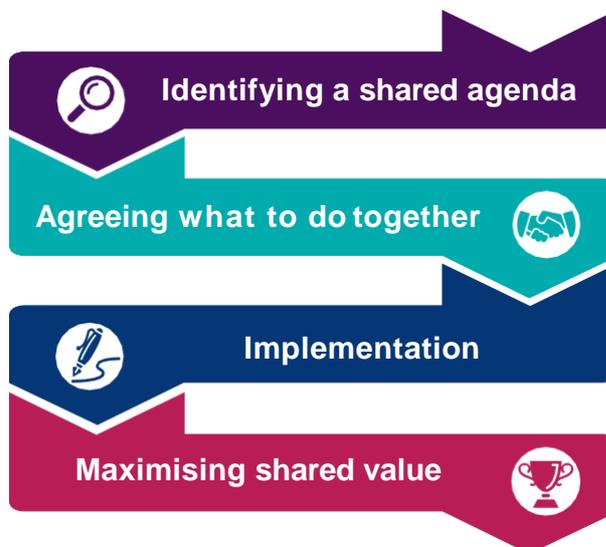
Garment Factories (Myanmar)

Context: Many garment factories in Myanmar have poor operational management. For example, few use industrial engineers to monitor factory performance and so have no means of understanding and addressing factors limiting productivity. Similarly, most lack an HR function and do not recognise the importance of improving working conditions for their employees. When there are shocks to the sector, such as the recent introduction of a minimum wage for the first time in Myanmar, they lack the capacity to respond and remain competitive.

Company perspective: With uncertainty about orders and low margins, garment factories focus on keeping overheads low. There is a lack of experienced personnel in the garments sector, which is part of a wider problem of skill shortages across the Myanmar economy. Factory management is typically highly centralised around the owner with small management teams overseeing all operational functions. Factory owners often have little experience of accessing consultancy services, and so are not aware of the impact they can achieve and may therefore doubt their value.

BIF perspective: BIF's objective is to increase the welfare of workers in Myanmar garment factories. The thesis is that happier workers are more productive, and so BIF is working with a small number of factories to demonstrate the how HR and productivity consultancy services can be used to create a virtuous circle between worker welfare and productivity. In order for this to be sustainable, BIF needs to stimulate demand for such services by sharing the results of these pilots to other factories. The impact of improved working practices may also raise standards, making it possible for more factories to supply European and US brands and allowing Myanmar to compete with China and other key garment manufacturing countries.

Perspectives on effective partnering between a company and an MSP



This How To Note focusses on stages 2 - 4 of the process; the first stage is the subject of the How to Note: Finding common ground.

Agreeing what to do together

Having established that there is potential to collaborate, prospective partners need to engage in more detailed negotiations.

For programmes:

- Be prepared – typically the programme will ‘make the first move’, so before entering into negotiations, construct a deal to offer the company. In the interests of sustainability it is important to reach an agreement that involves appropriate levels of company contribution, but remember to remain flexible and work through any objections or questions that arise to reach a mutual agreement.
- Be generous with industry knowledge and insights to build trust and demonstrate that you understand the company’s business and pain points, and that the programme truly can add value. Where you are able to share case studies and results from other programmes, or perhaps a pilot phase of an intervention, do so. If necessary, carry out “action learning” or small pieces of research to supplement your knowledge. For example in the garments market in Myanmar the team carried out action learning to understand the sector and business constraints, and shared results from the pilots.
- Dedicate time to face-to-face discussions and negotiations with the company to ensure that all of their questions are addressed, and also to verify their commitment to working together. A company which is not willing to invest time up front is unlikely to be a strong partner going forward.

For companies:

Dedicate time to face-to-face discussions and negotiations with the programme to ensure that all of your questions are addressed satisfactorily. The Myanmar garments team did many of face-to-face meetings: 3-5 meetings with each of the factories

Keep in mind that any deal you establish will involve commitments on both sides, so consider what your company can contribute be it financial resources or in-kind contributions.

Rice Seed Market (Malawi)

Context: Poor productivity among rice farmers limits their net incomes, and the use of recycled seed is a key factor in the low yields they achieve. The use of certified seed also improves rice quality and therefore the opportunity for greater profits. As well as using better inputs, farmers benefit from technical assistance to improve their agronomic practices and accessing extension services.

Company perspectives: There is not yet a convincing business case for the investment that would be needed in marketing and selling of certified rice seed to smallholder farmers at a greater scale. However, companies are interested in seeing evidence that farmers understand the business value of using certified seed and would be prepared to buy it if it was made available by local agro-dealers at the right time and at competitive prices. This evidence would help them to re-evaluate the business opportunity. However, even with this information the risks of making this investment remain prohibitively high.

BIF perspective: BIF was interested in facilitating change in the rice market that would help smallholder rice farmers to have a more sustainable livelihood from the market. The programme team carried out a survey to produce the evidence of demand that was missing. It then “bought down” the risk for a company that was interested in investing in rice seed sales by underwriting 8 of the 25 metric tons (MT) procured by the company, i.e. BIF2 will pay for the 8MT in the event the company fails to sell. To further increase the chance of success for the venture, BIF2 will provide technical assistance to help market the seed through road shows and radio advertisements.

Implementation

Company engagement is typically only one part of a market systems intervention to achieve change. It may be necessary to work with government to develop supporting policies, with industry bodies to strengthen the voice of market players, or even introduce new types of market actors. The core approach of an MSP is facilitation – to engender new ways of working without stepping into the roles or replacing the function of any market actors.

Use of different collaborative tools

In order to facilitate change in the private sector, there are a variety of tools that are used. The best one to select depends on the structure of the market, the nature of the company in question, and the risk involved in making a change. The following are the core tool that BIF utilises to engage with its partner companies:

Technical assistance can be provided to upskill a company to be able to deliver a new or improved product or service. For example, in the Myanmar garment market, factory owners were interested to see how the training and consultancy support offered by BIF would improve their factory before they would commit to paying for such services themselves. The process was very disruptive to the factory, particularly as BIF needed access to workers in order to be able to measure the impact. A lot of trust was required for the factory owner to take this step, and investing in the relationship between the BIF team and the owners was a key action by both partners for the programme to happen. BIF also recognised that there was a large commitment for the factory involved, and so this pilot support was provided at no cost to the company.

Grants can be provided in to companies such as SMEs that do not have capital to risk on experimentation and innovation.

Competitions can be used to offer grants where there are a large number of potential programme partners and there are thought to be a wide range of pro-poor innovations that could be stimulated. In Myanmar, BIF ran such a competition in the tourism sector. The competition, now in its second year, exceeded BIF’s expectation in terms of the number of businesses that have attend training and put forward proposals.

In the competition BIF also offered technical assistance to operators alongside the grant. This has been very welcome and has probably made the competition work, as the BIF team ran seminars and workshops to explain the key concepts and then followed up with one-to-one visits.

Cost sharing is a common approach to pilot innovation / new ways of working; the MSP negotiates a fair deal with the company whereby they share the cost of the project, often taking into account soft funding such as management time. This may be seen as less of a commitment than ‘hard cash’ but the time of senior executives is actually extremely valuable.

‘Buying down’ risk for new strategies is a means underwriting the downside of a venture that fail, as in the rice market in Malawi.

National Travel and Tour Operators (Myanmar)

Context: The Myanmar tourism market consists mostly of small local travel and tour operators with a limited number of experienced tour operators. The market also depends on a small number of highly attractive destinations, but as the country adjusts to a new political openness, tourists are being allowed access to more areas of the country. Although tourism generates high revenues, these tend to flow to very small numbers of people; local people living near popular destinations often see no benefits from tourism.

Company perspective: Often employing only a few people and informally run, the small local operators are running a low margin business with very limited resources for risky new initiatives. Despite this, the competitive environment means that they are also very interested in differentiating their service and the tourism products they can offer. Many are keen to innovate and are hungry to learn about new opportunities.

BIF perspective: Tourism is becoming a large and significant industry in Myanmar but the market risks failing to provide benefits for the poor and disadvantaged in the population, even those living at or near major tourism destinations. To help counter this trend BIF were interested in identifying and supporting the most innovative companies that could pioneer inclusive tourist products and packages; there is a clear win-win from developing new products that are both attractive to visitors but also benefit local people. With hundreds of small operators in the market, BIF felt the best way to identify and support innovation was through a competition that awards small grants. BIF also offers training prior to each round of the competition and technical assistance through the process and as part of the award.

However, disbursements of grants proved slow and frustrating; both BIF and many of the company owners under-estimated the challenges around engaging with each other. BIF has processes and controls that are necessary when using donor funds to make grants, and some company owners were over-confident in terms of what they could achieve in a short time, and were also unfamiliar with contracts, accounting processes or financial instruments such as international bank transfers. These teething troubles were addressed in the second round with greater attention to communication and guidance.

Capturing agreement on a collaboration

Entering into a formal agreement is the final step in the establishing a partnership, before implementation can begin. The following are tips for both companies and programmes:

- Consider the most appropriate type of agreement for the partnership. A formal contract may be required in some cases – for example, a Service Recipient Agreement (SRA) or Grant Agreement – while in others, a MoU or letter of intent may be suitable.
- Dedicate time to the process to ensure that you develop an agreement which accurately reflects your negotiations, includes a detailed scope of work and defines contributions from both parties. This would typically involve several face-to-face meetings, and include a meeting at which each clause of the agreement is explained in detail. The BIF garments team in Myanmar and companies had a series of meetings to work through each clause in the SRA and ensure that there was a mutual understanding. Reaching agreement on what to include in a Grant Agreement for the tourism operators in Myanmar was an even more challenging process for all involved as explained in the case study at left. In some cases this took several months and several meetings, with both tour operators and BIF required to be very patient and understanding with each other.
- Be sensitive to requirements around confidentiality and sharing data. Programmes will typically have requirements to report to donors, and may require access to sensitive information such as company turnover and profitability. Market systems programmes often also have an obligation to share results widely, in order to catalyse market-wide change. Consider how information can be managed to respond to this need, whilst maintaining companies' confidentiality. In the garments market in Myanmar, BIF only publishes data aggregated across a number of companies, never on individual companies. This topic is explored more in a How to Note: Learning by numbers.

Maximising shared value

Establishing a working relationship, a clear 'modus operandi' and agreed parameters is essential for an MSP to work effectively with a partner company. However, it is important for both parties to maintain focus once an agreement is in place – the journey may take months or even years – and to continue to engage readily and openly with one another.



In conclusion

From the BIF experience the following questions may be useful to keep in mind when a company and an MSP seek to partner effectively:

1 Have we allowed enough time to reach agreement?

Capturing agreement on what to do together is time consuming but it is time well spent.

2 Are we using the right tools?

There are no fixed methods by which an MSP can support a company so consider the options before firming up support.

3 Who is taking the risk?

This is a key question. A company can expect an MSP to share some of the risk of a new initiative but this will be alongside a high level of commitment from the company.

4 How is the agreement formalised?

It is best for everyone that there is clear record of what has been agreed but there are several options as to how. This is then the beginning of what should be an effective partnership.

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