STRENGTHENING MARKETS THROUGH COLLABORATION

HOW LARGE COMPANIES CAN HELP SMES TO THRIVE AND BUILD HIGH PERFORMING VALUE CHAINS IN DEVELOPING MARKETS

Business Fights Poverty

endeva

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GLOSSARY OF TERMS

CSO: Civil Society Organisation

Large companies: Multi-national and large national companies

Market Building Collaboration: The process through which large companies, governments, support service providers and funders work together to drive SME growth

Service provider: Public and private organisations that provides support and services to SMEs

SME: Micro-, Small- and Medium-sized Enterprise.

EXECUTIVE SUMMARY

Successful and growing Small and Medium Enterprises (SMEs) are essential business partners for large companies looking to grow and manage risks in developing countries.

SME growth is also a top priority for governments, support service providers and funders. By putting collaboration at the heart of their approach to supporting SMEs in developing markets, all actors can more effectively tackle SME barriers to growth. In this guide, this approach is called Market Building Collaboration.

Market Building Collaboration unlocks SME growth at a more fundamental level than individual companies can on their own. It leverages an opportunity that often remains overlooked, namely that SME growth is a shared interest of large companies, governments and those who support SMEs through services, training and funding.

These players together are investing billions of dollars in the success of SMEs, but all too often it is done in siloes and without coordination, which represents a significant lost opportunity. By combining their strength in a systematic way, they can magnify their impact, both in terms of commercial results and social impact.

Market Building Collaboration first and foremost requires a mindset shift within large companies and among other actors that places collaboration at the heart of finding solutions to SME challenges, and encourages a longer-term growth perspective rather than a partial, short-term approach to supporting SMEs. Such a shift can change the way organisations conceptualise challenges and design solutions. For large companies, for example, collaboration can open up new ways to reach unfamilar market segments, test new product and service innovations, save costs, reduce risks and enhance license to operate.

By putting collaboration at the heart of their approach to supporting SMEs in developing markets, all actors can more effectively tackle SME barriers to growth.

Four building blocks for Market Building Collaboration are critical for success:

- **Landscape understanding:** Understanding root causes of challenges for large companies and their SMEs partners.
- **Business proposition:** Aligning short-term and long-term, commercial and social objectives to achieve transformative change.
- **Partners:** Working with partners and building on each other's complementary strengths.
- **Finance:** Orchestrating financial resources from different sources.

The challenge of realising Market Building Collaboration lies in its complexity. Seeing the potential for such an approach is complicated by the fact that each individual player only sees part of the opportunity from their vantage point. Large companies and their partners should focus on three priorities to unlock the potential of collaboration:

1. **Identify collaboration opportunities:** Large companies can review their existing SME support programmes to identify partnership opportunities. Governments and international government donors can map opportunities by focussing on certain sectors or regions. SME service providers and funders can engage large companies.

2. **Facilitate collaboration:** Strong faciliation is required to attract diverse players to the table and to work together. Where large companies are already supporting SMEs, they can engage value chain and business partners with complementary skills and resources. Governments can support the development of platforms and use technical assistance, risk financing and policy levers to move from dialogue to action. SME service providers and funders can play the role of, or fund, neutral catalysts to engage and coordinate local actors.

3. **Provide catalytic funding:** There are many different funders with different priorities and financing instruments and there is significant scope for greater alignment. Large companies can leverage corporate venture capital to invest in companies that strengthen critical SME partners. Governments could issue SME Bonds, in the same way they offer Green Bonds, to attract capital to SME growth. Impact investors could set up third party funds that pool money from different organisations for the purposes of strengthening SME ecosystems and generating financial returns.

WHAT IF EVERYTHING WE TALK ABOUT IN THIS GUIDE HAPPENED?

SMEs in developing markets flourish and become engines of growth for their business partners, communities and wider economies. They have the skills, agility, knowledge and technologies needed to manage their business. They have access to credit lines and insurance products that fit their business needs and give them the financial flexibility to take advantage of new market opportunities.

With supportive government policies and access to improved infrastructure, including electricity and internet connectivity, their businesses grow. As a result, they enjoy more stable, improved livelihoods and are better able to support their families.

Strong and growing SMEs enable communities to prosper. They serve their customers with a reliable and expanded product and service portfolio, be it agricultural inputs or everyday household wares. They create jobs and livelihood opportunities for women and youth especially, who gain independence through entrepreneurship.

A range of players contribute to these improvements. Large companies, banks and other financial services providers, financial intermediaries such as funds and impact investors, technology providers, public agencies and donors, Civil Society Organisations (CSOs) and government all play a role. Each player provides support and services based on their core priorities and capabilities, with a shared objective of enabling SMEs to grow.

Large companies, who partner with SMEs in their value chains for inputs, services and distribution, benefit from improved business performance, and in the long-term, more prosperous value chains rooted in the local market.

On the following pages, we explain how to get to this vision.

WHO IS THIS GUIDE FOR?

The guide is aimed primarily at people working in large companies across a range of commercial and corporate functions, who have a direct stake in the success of their SME partners.

The guide can also be useful to organisations who are committed to helping SMEs to prosper, whether they be governments, funders or service providers. We hope it will help to inform and frame dialogue across these different actors.

Informed by a process of research and engagement with large companies and experts, this guide shares practical guidance on why and how large companies can move towards a Market Building Collaboration approach. It builds on existing concepts of system leadership, partnership and large company value chain linkages, but adds a new perspective by setting out a practical, business orientated action framework to help large companies put theory into practice in their own value chains.

DEFINING SMES IN DEVELOPING MARKETS

We use the term “SMEs” as short hand for ”micro, small and medium-sized enterprises” which employ fewer than 250 people, according to the OECD definition. SMEs are further subdivided into micro-enterprises (fewer than 10 employees), small enterprises (10 to 49 employees), and medium-sized enterprises (50 to 249 employees).

Large companies operating in developing countries rely on SMEs along their value chains. The mix of SMEs a large company includes in its value chain varies significantly across sectors and operating contexts and is largely determined by business model needs and local capacity.

SMES IN THE LARGE COMPANY VALUE CHAIN

IN-BOUND LOGISTICS
- Input providers
- Smallholder and commercial farmers
- Logistics companies

MANUFACTURING
- Processors
- Machinery suppliers

OUT-BOUND LOGISTICS
- Logistics and storage companies

MARKETING AND SALES
- Distributors
- Small retailers

SERVICES
- Marketing
- Tech support
- Facilities management
- Catering

The concepts in this guide apply to large companies working with all types of SMEs. Many of the examples included in this guide feature micro and small enterprises in and around large company value chains with less than 50 employees. The overwhelming majority of these business have less than 10 employees, and many are simply run by the owner and his or her family. They include smallholder farmers, distributors and small shop owners.

Although fewer in number, medium enterprises also play an important role, both as beneficiaries of an enabling environment and as linkages and service partners between large companies and micro businesses.

SME PROFILES

SMALLHOLDER FARMER AGATHA

Agatha is a smallholder farmer, who grows sorghum on a two hectare plot of land, which she sells via the local farmer collective to a local brewery.

Agatha earns relatively little because her production costs are too high and her productivity is too low. She also struggles with insecure rights to her land and a lack of collateral means that she cannot access credit to pay for better seeds and fertilisers. She is also highly vulnerable to the impacts of climate change.

As a mother of three children, Agatha has to juggle farming with childcare and domestic chores. Despite these challenges, Agatha is determined to improve her yield and income. She is participating in a new scheme backed by the brewery, an impact investor and the government to improve farming practices through training in new farming techniques and access to better quality seeds and fertiliser. As her yields and income increase, she aims to save money to purchase more land and pay for her children to attend the local school.

DISTRIBUTOR PETER

Peter owns a transport and logistics company that delivers packages to businesses and distributes consumer products from wholesalers to small retailers. He employs 65 people as delivery drivers and 20 people in the main office, who manage customer accounts and help administer the business. Peter now wants to expand and double the size of his business over the next five years. To achieve this, he must invest in increasing the number of vehicles in his fleet, hire more drivers and update his customer relationship management systems.

Despite his ambitious plans and growing customer base, Peter is struggling to raise investment for both working capital and capital expenditure for new vehicles. Local banks are only willing to extend a loan with unaffordable interest rates and the company is too large for micro-finance and too small for private equity or venture capital.

Despite these set-backs, Peter is determined to succeed and is currently receiving advice on how to strengthen his business plan and management processes.

MICRO-RETAILER MARTHA

Martha has been a proud business owner for the last three years after losing her job at a local factory. She works 16 hours per day serving around 100 clients. Her business is cash based and she has limited business skills.

She works long hours but every additional hour she spends at her store is one more hour away from her family. She has big plans to grow her store but exclusion from the formal financial system means she cannot access credit. She has a good relationship with her vendors which are a mix of global consumer goods companies and local distributors and independent sellers. In total, Martha has 20 suppliers and manages her business with her cellphone and a notebook.

Martha's main objective is to grow her business which means increasing her inventory and profitability, with the proceeds paying for schooling for her kids and a viable business to depend on for the long term.

1. SME GROWTH - A SHARED OBJECTIVE

SME GROWTH IS A TOP PRIORITY FOR LARGE COMPANIES, GOVERNMENTS, SUPPORT SERVICE PROVIDERS AND FUNDERS

SMEs are the pillars of most economies, making up over 90% of all firms and accounting on average for 60-70% of total employment and 50% of GDP[1]. Consequently, their success is important to governments, large companies, support service providers and funders for different reasons:

LARGE COMPANIES

SMEs are essential business partners for large companies looking to grow and manage risks in developing countries. They:

- Produce supply
- Operate logistics
- Distribute and sell products
- Buy and use products and services
- Recycle and reuse products
- Provide support services

At the same time, working with SMEs can be difficult for large companies. Challenges can include reliability, scalability, quality and inefficiencies as a result of dealing with large numbers of small businesses.

GOVERNMENTS

National and local government in many low and middle-income countries are supporting SME growth to help achieve economic growth and job creation.

In addition, governments in high-income countries contributed US$ 7.4 billion to SME development initiatives in 2017 alone, increasing finance and technical assistance available to SMEs[1].

SME SERVICE PROVIDERS AND FUNDERS

A wide range of public and private organisations are providing support and services to SMEs, including inputs, information and business services, training and funding. By helping SMEs to succeed, they realise their own objectives, which range from growing markets to reducing poverty and inequality, creating jobs and protecting the environment through entrepreneurship. This diverse ecosystem includes (see next page):

1 International Council for Small Business https://www.un.org/en/events/smallbusinessday/)

1 Fuelling entrepreneurship in emerging markets: How 20 Major Funders are Supporting Small and Growing Businesses, ANDE / DEVEX

SME SERVICE PROVIDERS AND FUNDERS

Impact investors and funders

Investors and funders from private and company foundations, who are looking for a social or environmental return alongside a financial return, provide catalytic financing through a variety of vehicles which can be used to fund the training of SMEs, improve the enabling environment or enable the provision of credit and other financial services. The impact investing sector now represents US$ 502 billion under management[2]. The member organisation Aspen Network of Development Entrepreneurs (ANDE) counted US$ 1.8 billion of investment in small and growing businesses from just 45 members in 2018[3].

Local financial institutions

Local financial institutions, which can include local banks and credit unions, provide small loans and other financial services to SMEs. Development Finance Institutions channel funding through these institutions to extend finance to SMEs.

Input providers and traders

A range of micro and small businesses provide essential inputs and services to SMEs.

Business development service providers

Specialist small and growing business advisers, incubators and accelerators provide financing and capacity building support to SMEs which have an ambition to grow.

Civil Society Organisations

Civil society organisations (CSOs), with strong local networks and reach into communities, provide technical and business training to SMEs, and advocate on their behalf.

2 Global Impact Investing Network, 2019 Annual Impact Investor Survey
3 State of the Small and Growing Business Sector, 2018 Report, ANDE State of the Small and Growing Business Sector, 2018 Report, ANDE

Successful and growing SMEs make a vital contribution to the Sustainable Development Goals (SDGs)

ALL SECTORS RECOGNISE THAT GROWING SMES ARE VITAL FOR ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)

Successful and growing SMEs make a vital contribution to the Sustainable Development Goals (SDGs), a set of economic, social and environmental priorities for the world to achieve by 2030, adopted by UN Member States in 2015. For large companies focused on meeting their Environmental, Social and Governance (ESG) targets, helping SMEs to succeed contributes to the achievement of the SDGs by:

- Increasing access to affordable goods and services
- Creating jobs and livelihoods
- Opening up economic opportunities, especially for women and youth
- Reducing inequalities
- Driving more sustainable business practices.

SMEs AND THE SDGs

The Sustainable Development Goals (SDGs)[4] bring together all sectors with the shared goal of ending poverty, protecting the planet and improving the lives and prospects of everyone, everywhere.

TWO SDG TARGETS RELATE SPECIFICALLY TO SMES:

Target 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

Target 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

More broadly, supporting SMEs also contributes to **SDG 1** (End Poverty), **SDG 2** (Zero Hunger), **SDG 5** (Gender Equality), **SDG 10** (Reduced Inequalities) and **SDG 17** (Partnership for the Goals).

4 https://www.un.org/sustainabledevelopment/development-agenda/

BARRIERS TO SME GROWTH

BY WORKING TOGETHER AND POOLING RESOURCES, ALL ACTORS CAN MORE EFFECTIVELY TACKLE SME BARRIERS TO GROWTH

A range of barriers hold back the growth and performance of SME partners, and, in many cases, cause them to fail.

Finance

SMEs often do not have access to formal credit lines for working capital and investment, financial services like insurance and electronic payment systems that reduce the need for cash. This limits their ability to stock, professionalise and expand and makes them more vulnerable to shocks. A joint report by IFC and the SME Finance Forum has found that 65 million enterprises, or 40% of formal micro, small and medium enterprises (MSME) in developing countries, have an unmet finance need of US$ 5.2 trillion a year.

Skills and information

Small business owners often lack professional and technical skills like basic accounting for example. They also find it hard to access information about market opportunities, pricing and risks.

Markets and Networks

SMEs lack access to market opportunities and networks which can provide advice and support.

Regulatory environment

A challenging regulatory environment holds back SMEs. For example, regulatory requirements can be cumbersome, expensive and time-consuming, leading many small businesses to remain in the informal economy. Approximately 80% of enterprises in developing economies are informal enterprises.[5] In addition, poor transport infrastructure drives up logistics costs for SMEs. Limited energy, internet and data infrastructure impact their productivity and performance.

These barriers are often interconnected, sit within challenging cultural and societal norms and need to be tackled together. For this reason, increasingly, large companies, government agencies, service providers and funders are joining forces, pooling resources and tapping into each other's expertise, moving beyond siloed solutions to transform the market environment SMEs operate in.

We call this approach Market Building Collaboration.

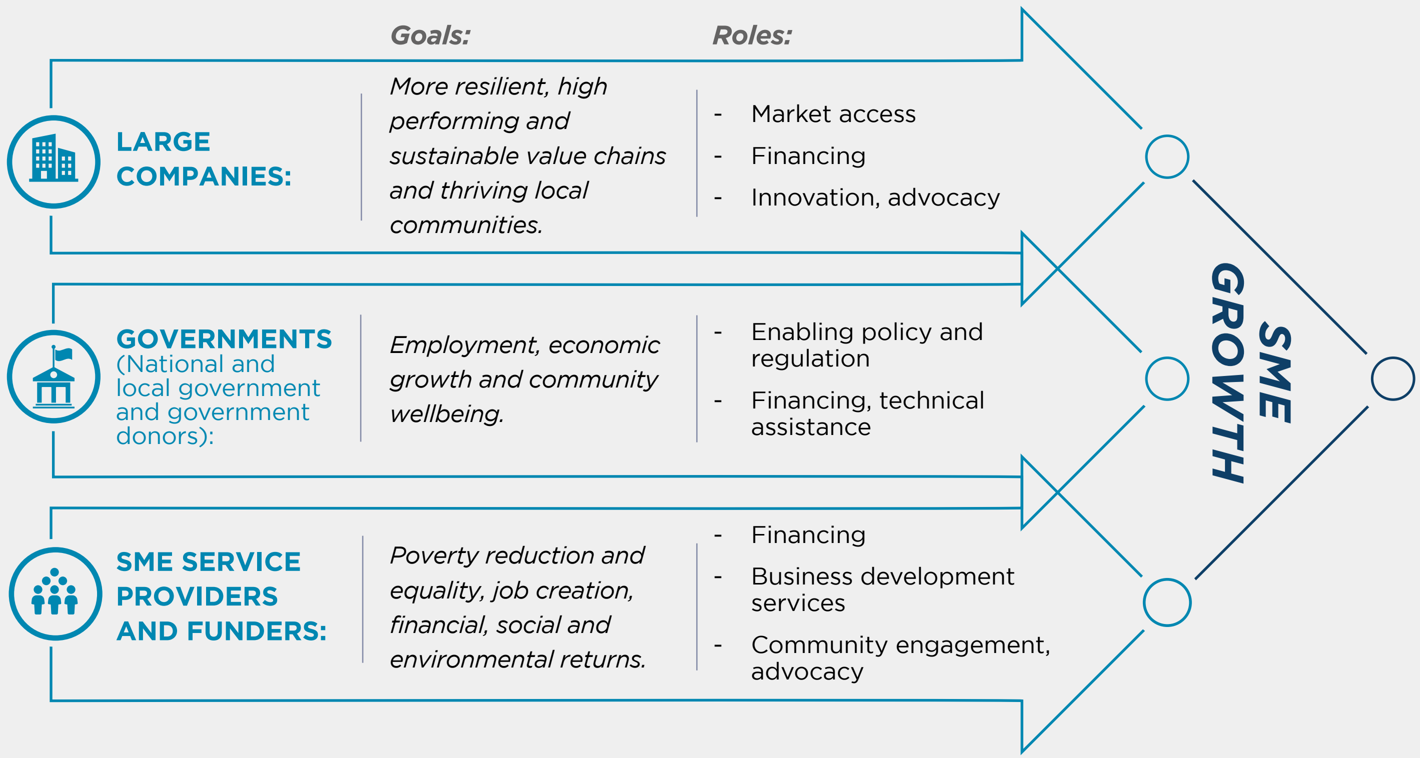
5 International Society for Small and Medium Enterprises (https://issme.org/indiscussion/informal-sector-enterprises-2/)

MARKET BUILDING COLLABORATION CAN BE TRANSFORMATIVE

Market Building Collaboration allows organisations to unite around the shared goal of helping SMEs to grow while driving specific objectives. All players can achieve their individual objectives more effectively together. Large companies play a critical role as an anchor buyer or supplier for SMEs, and governments, service providers and funders can support SMEs to take full advantage of this opportunity.

Market Building Collaboration builds on existing concepts of business ecosystem strengthening and partnership that are summarised in the Appendix. It can be transformative because:

Figure 1: SME growth as a shared opportunity



- By tackling root cause barriers to SME growth, it enables large companies to advance their commercial objectives, while driving more effective, long-term solutions and greater scope for wider and more sustained social impact.
- By combining know-how and capabilities of different sectors, it opens up new ways to tackle complex, entrenched SME challenges.
- By working together and by pooling complementary resources and expertise, it reduces duplication of effort and ensures more effective use of precious resources.

For large companies, Market Building Collaboration sets off a positive commercial growth dynamic that pays back into their bottom line over the long term. In the process, it also enables companies to learn more about future market segments, test new product and service innovations, access new distribution channels as well as strengthen their license to operate, reputation and stakeholder relationships.

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A growing number of examples of Market Building Collaboration are emerging:

- Unilever joined forces with Mastercard and Kenya Commercial Bank (KCB) to improve access to finance for small retailers in Kenya. The initiative “Jaza Duka” grants these merchants credit based on inventory information provided by Unilever and analysed by Mastercard. With each successfully repaid loan, merchants can increase their lending, and thus their stock purchasing. Of the 18.000 stores that have signed up, 62% were able to access credit for the first time. Participants increased their sales by 20-30% in the first six months.
- In a similar initiative, AB InBev in Latin America supports micro-retailers to get licensed and access credit. Through its initiative “Caminos al Progreso” it also provides training, which is delivered by specialised consultancy FUNDES and partly funded by the Inter-American Development Bank (IDB). The ambition is to reach 190.000 “Tenderos” by 2020.

- CocoaAction is an industry-wide initiative in Côte d’Ivoire and Ghana to help 300.000 cocoa farmers adopt productivity practices and empower 1.200 communities with development interventions. Nine partner companies work together to enhance productivity and livelihoods of cocoa farmers.
- Tokafala is a joint initiative by mining companies DeBeers, Anglo American and Debswana as well as the Government of Botswana with the aim of supporting local SME growth. The initiative has reached more than 1.000 SMEs, creating over 1.000 jobs and contributing to an average growth of 260% among micro enterprises.

MARKET BUILDING COLLABORATION STARTS WITH A SHIFT OF MINDSET

Market Building Collaboration first and foremost requires a mindset shift within large companies, from a partial, short-term approach to a longer-term growth perspective. Organisations taking a Market Building Collaboration approach:

- Look at the landscape of actors and organisations whose actions influence the success of SMEs to understand who could play a valuable role in overcoming barriers and what are their incentives and barriers to collaborating.
- Engage key players to coordinate action to support SME growth, with the emphasis on moving away from siloed, short-term fixes to ones that ultimately strengthen the market environment for all over the long-term.
- Find a role in the process that best fits their own objectives and capacities, without necessarily having to take charge or even be involved in all activities.

WHY NOW?

Market System Collaboration examples are still relatively rare and nascent, but a series of trends suggest that they will become more important and widespread.

- Ensuring long-term supply, protecting market share and unlocking growth potential in developing markets can be realised by creating smarter ways to support suppliers and reach last mile consumers.
- New technologies as well as new business solutions are creating more efficient and cost-effective ways of supporting SMEs. Fintech companies are developing new solutions around mobile money, credit scoring and risk rating for insurance that make financial services available on a smart phone even in remote areas. Off-grid energy solutions are becoming ever more robust and powerful, enabling local production. Virtual assistants powered by artificial intelligence can provide low-cost support to small businesses as they professionalise, e.g. in administration.

Market System Collaboration examples are still relatively rare and nascent, but a series of trends suggest that they will become more important and widespread.

- New sources of public finance and impact investment are enabling large companies to share the risks associated with supporting SME development.
- Large company investors and customers increasingly demand transparency on how value is shared along the value chain, and reward responsible businesses that contribute to the SDGs.

Evidence suggests that Market Building Collaboration generates multiple benefits, compared to individual, siloed approaches.

THE BENEFITS

Evidence suggests that Market Building Collaboration generates multiple benefits, compared to individual, siloed approaches:

- **Greater scale:** solutions that bring in other players based on their own interests and with their own resources, channels and networks enable such initiatives to scale up and become self-sustaining.
- **Enhanced effectiveness:** tackling root causes rather than symptoms creates the conditions for sustained growth.
- **Lower cost:** By leveraging others' resources and capabilities, costs are shared among partners. Where societal objectives are addressed, companies can also tap into alternative sources of finance such as donor grants.
- **More vibrant local economies and deeper social impact:** Overcoming barriers allows SMEs to grow, serve their customers better, create jobs, build thriving communities and vibrant, more resilient local economies.
- **Reputational benefits:** Addressing SME issues at the root cause level goes beyond what companies are usually expected to do and thus improves reputation with government, customers, employees and the wider public.

CHALLENGES TO OVERCOME

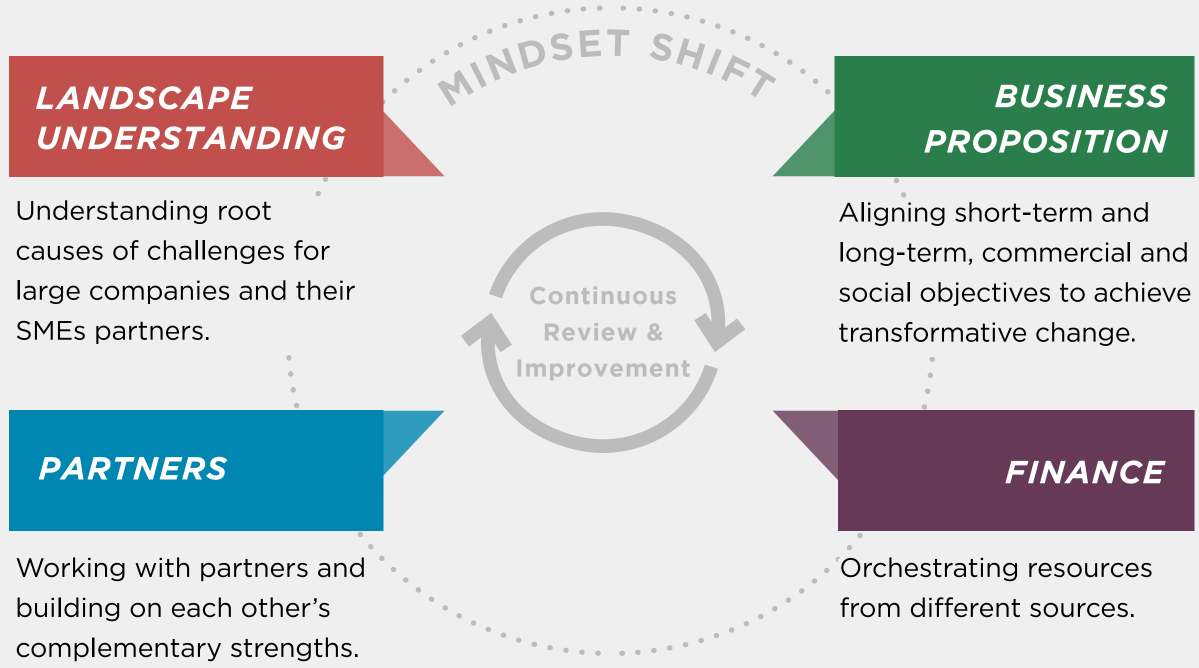
Taking this approach is not easy and will require companies to develop new skillsets and mindsets including:

- Making the case for a longer-term financial commitment.
- Accepting longer time horizons to generate results and greater flexibility when setting targets and work plans.
- Working with non-traditional partners, including public agencies, CSOs, and other companies.
- Being comfortable with a shared approach.
- Garnering support of colleagues across functions and geographies.

2. A FRAMEWORK FOR COLLABORATION

Market Building Collaboration starts with a mindset shift that places collaboration at the heart of finding solutions to SME challenges.

Figure 2: ***4 Building Blocks of SMEs Market Building Collaboration***



This section demonstrates how working with non-traditional partners can change the way organisations conceptualise challenges and design solutions and, when partner goals, strategies and resources are aligned, create new opportunities for both commercial and social impact. For large companies, for example, partnerships can open new ways to reach unfamiliar market segments, test new products and service offerings, save costs, reduce risks and enhance license to operate.

Once the intention is born to work directly with others to strengthen SMEs, four building blocks are critical for success. See Fig 2.

Market Building Collaboration does not follow a linear path. It develops through an iterative process. Over the course of the initiative's evolution, companies should be prepared to keep a critical perspective and change course if necessary.

Building markets takes time. While there may be some quick wins, the real benefits start to materialise once different components are in place and the growth dynamic kicks in. The examples reviewed for this report were either supported directly by the CEO, or part of a high-level strategy related to the purpose of the company. This high-level support is necessary in order to allow Market Building Collaboration the time and space it requires.

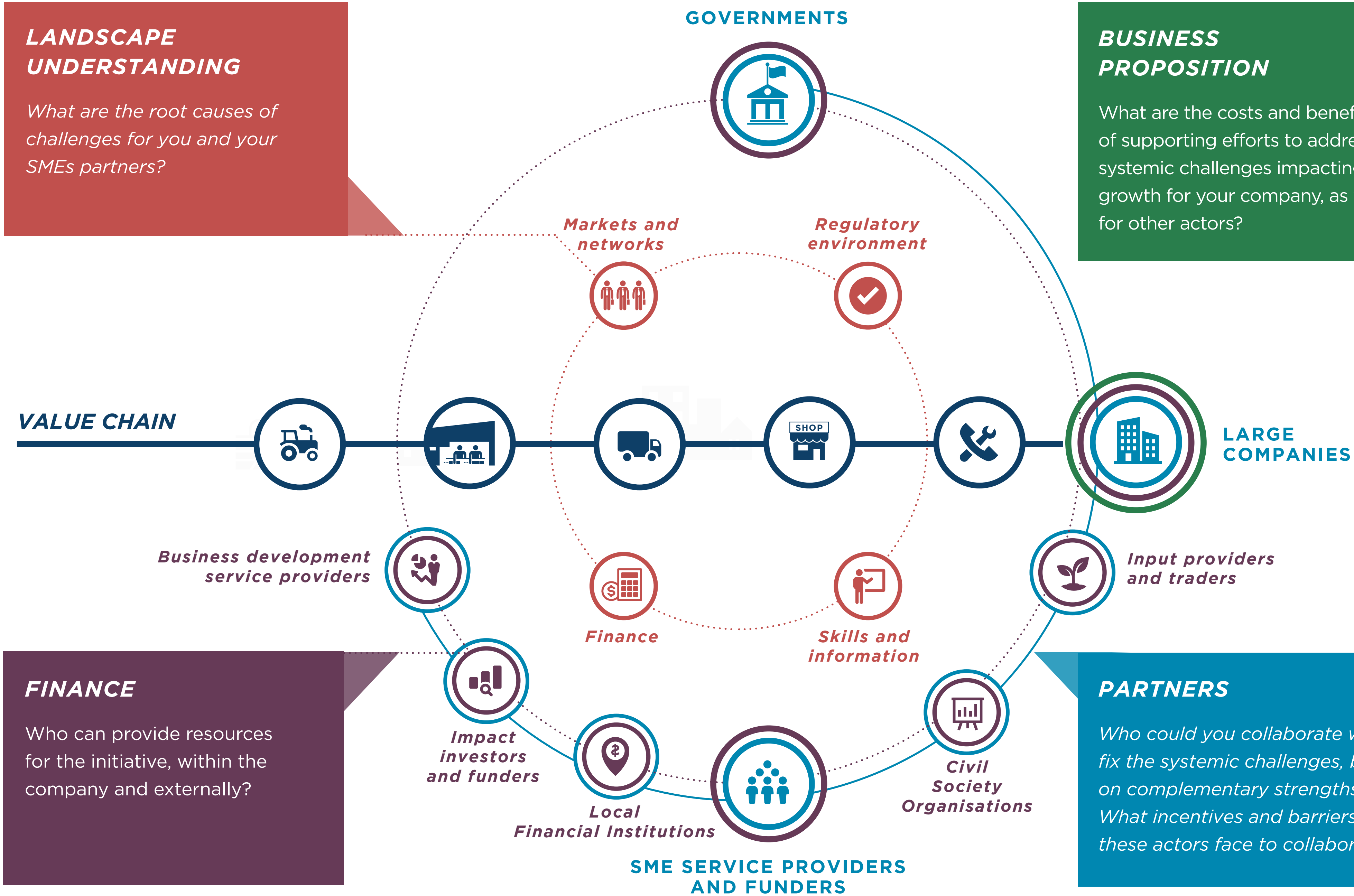
MARKET BUILDING COLLABORATION – KEY QUESTIONS

LANDSCAPE UNDERSTANDING

What are the root causes of challenges for you and your SMEs partners?

BUSINESS PROPOSITION

What are the costs and benefits of supporting efforts to address systemic challenges impacting SME growth for your company, as well as for other actors?



FINANCE

Who can provide resources for the initiative, within the company and externally?

PARTNERS

Who could you collaborate with to fix the systemic challenges, building on complementary strengths? What incentives and barriers do these actors face to collaborate?

PATHWAYS TO SUCCESSFUL MARKET BUILDING COLLABORATION

For each building block, there are three steps a company should consider taking in developing a Market Building Collaboration approach.

Across building blocks, companies can walk different pathways to complete the design of an initiative.

For example, they may start with the opportunity statement to develop the core argument and then conduct a root cause analysis before identifying stakeholders. Or they may start from a partnering opportunity and conduct the root cause analysis to develop a robust solution.

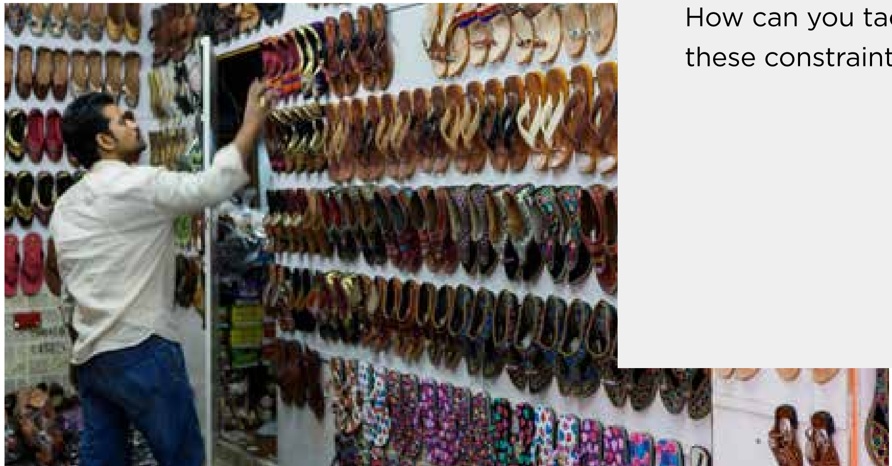


*Figure 3: **Building blocks and steps***

LANDSCAPE UNDERSTANDING

1. **Opportunity statement:** What is the opportunity from a business and market perspective?
2. **Root cause analysis:** What are the key constraints?
3. **Solution analysis:** What approaches exist to remove the barriers? How can you tackle these constraints?

BUSINESS PROPOSITION

1. **Core proposition:** Why a systemic approach can unblock market constraints?
2. **Concept note:** What could the intervention look like, with associated costs and benefits?
3. **Business case:** What are the objectives, targets, costs, returns and risks?

PARTNERS

1. **Stakeholder analysis:** Who else is, or should be, involved in this issue?
2. **Partner exploration:** What are actors current perspectives on the issue? What are incentives and barriers? Is there potential for collaboration?
3. **Partnership agreement:** What are the partner roles and how is the partnership governed?

FINANCE

1. **Internal funding:** Who in the company is interested in fixing this issue? Which budget might be available or could be created?
2. **Partner funding:** What level of funding can partners contribute?
3. **External funding:** What investment is required that goes beyond the core business and would be hard for a company to justify? Which external players / donors might provide support?

LANDSCAPE UNDERSTANDING

Market Building Collaboration needs a solid analytical base to be effective. Market environments are naturally complex. Identifying root causes requires a deep understanding of all the actors in the relevant market, their roles and their incentives to act.

To build a deeper market understanding, companies start from a high-level opportunity statement and analyse the root causes to finally identify and assess solution options.

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OPPORTUNITY STATEMENT

The opportunity statement provides a hypothesis about how priorities in the company value chain can be converted into opportunities for the business and SME partners. An opportunity statement may not yet require formal research and could be based on insights from staff interacting with SMEs.

ROOT CAUSE ANALYSIS

A root cause analysis goes one level deeper to show constraints faced by SMEs. There is a risk that companies can quickly jump to conclusions based on unassessed assumptions. To find out, research is required to understand the entire market landscape, being mindful and cognisant of both the cultural and political context. Companies should identify local partners and experts with knowledge and insight on these issues, and with the capabilities to undertake a detailed market analysis.

SOLUTION ANALYSIS

A detailed understanding of the challenges and constraints faced by SMEs within a company's value chain will inform the design of effective, relevant solutions.

CASE STUDY: LANDSCAPE UNDERSTANDING

MARAGRA ACUCAR SA

Maragra Açúcar SA, (part of Illovo Sugar Africa, an AB Sugar business) has a single mill and is one of four major sugar producers in the Mozambican landscape. The company procures 34% of its sugar cane from local farmers, including 745 smallholder farmers, and 66% from its estate.

The company wants to develop and secure the procurement of sugar cane from smallholder farmers. Smallholder farmers are important business partners in the sugar supply chain who face multiple complex challenges which, if not managed well, can prevent them from taking advantage of opportunities in local and global markets. The root causes of these challenges are multi-faceted, requiring complex solutions that lie beyond the company's business operations and traditional areas of influence in the supply chain.

The company has historically committed to a range of multi-stakeholder activities to strengthen smallholder farmer productivity and establish good supply chain governance. One successful project funded by the EU was to organise smallholder farmers into a cooperative in 2016.

Analysis and understanding of the challenges facing smallholder farmers, which emerged from on-going supply chain programmes pointed to a lack of land rights as being a key underlying barrier for smallholder farmer success in establishing long-term sustainable businesses. Lack of land title has not only acted as a disincentive to invest, it also has been strongly linked to other barriers to improved smallholder farmer productivity including difficulty in accessing finance and gender inequality. Given the complexity of the issue at a community level, the company partnered with the specialist land rights CSO Landesa and the government donor DFID to access their insights and understanding of the issue and how to address it.

Photo Credit: USAID

Once partners were engaged and identified, government donors became more interested in supporting activities. USAID has funded work on land rights outside the supply chain and DFID has funded land rights capacity building among local civil society organisations. The project is complicated but the multi-stakeholder initiative, comprising business, government and CSOs, continues to create a successful environment to remedy land right challenges in the local community.

CASE STUDY: LANDSCAPE UNDERSTANDING

VISA SUPPORTING SME PARTNERS IN MEXICO

Visa, the global leader in payments technology, is committed to helping SMEs to thrive and grow. In Mexico, in collaboration with FUNDES, a CSO specialising in supporting SMEs, Visa has supported the development, testing and roll-out of a capacity-building initiative called ENKO (Enterprise Network of Knowledge and Opportunity), to help micro and small businesses to acquire the skills they need to succeed.

When designing the initiative, Visa and FUNDES invested significant time up-front to ensure training activities, content and delivery channels were fully aligned with micro and small business real-world priorities and needs.

A first step for Visa and FUNDES was to research the main business challenges and opportunities for SMEs and identify gaps and opportunities in the SME capacity building landscape. Focus groups and human-centered design approaches generated more qualitative insights on their motivations for starting a business, the business management and financial services support currently available to them, their usage of technology for business, their levels of interest and willingness to participate in training activities and which communication channels to use to reach them most effectively and conveniently.

Building on these insights, Visa and FUNDES then designed a training course to equip micro and small businesses with knowledge and competencies, with the goal of strengthening linkages to value chains and changing business management practices to increase revenue and income. They also developed a deep understanding of how to harness online and digital technology to deliver a comprehensive training programme, including training modules, mentorship, peer-2-peer learning, a community forum, sector specific solutions and business and financial services support.

Training content was structured around a learning journey, drawing on insights of how SMEs think about their businesses and what they value, using simple language, practical examples and case studies. Training activities aim to build five key skills – Sales, Marketing, Finance, Management and Life Skills, structured around 32 interconnected questions and covering topics including revenue, pricing, customer service, credit, bookkeeping, promotions, staffing, payments, formalisation, negotiation, customer service, technology, personal finance and business planning. Interactive learning resources including text, videos, infographics maps, audio, simulations and templates are delivered through a range of platforms including online, print, and face to face training.

To date, 3 million people have been reached through communication activities and 12,000 people have registered on *www.enko.org.*

BUSINESS PROPOSITION

Garnering support for Market Building Collaboration from within the company, key partners and other stakeholders requires a compelling proposition.

Unlike in a standard business case, the proposition for Market Building Collaboration will often need to combine both short-term and long-term objectives, as well as social and commercial benefits. Exciting scenarios can emerge by looking beyond present limitations and value chain boundaries and envisioning outcomes that can drive growth. Rather than incremental change, the proposition should be about transformative impact.

Unlike in a standard business case, the proposition for Market Building Collaboration will often need to combine both short-term and long-term objectives, as well as social and commercial benefits.

On the commercial side, the main arguments should include:

- Sales growth potential and new distribution channels
- Cost reductions and logistics efficiencies
- Improved reliability/reduced risk in the value chain
- Reputation, government engagement and license to operate
- Greater efficiency and effectiveness compared to direct support through leveraging others' expertise and resources.

On the social impact side, arguments can include contributing to the SDGs including:

- Supporting long-term, sustainable economic growth and development
- Creating jobs and empowering entrepreneurs
- Improving access to critical goods and services.

A key requirement for building a compelling proposition is strong alignment within companies between the functions with a commercial interest in developing SME partners, including procurement, sales, distribution, quality, regulatory, risk management, data and analytics, sustainability and government affairs.

When seeking alignment with external partners, the SDGs can provide a valuable framework for identifying areas of common interest and potential points of connection.

The proposition for Market Building Collaboration can be developed in three steps, from core proposition to concept note and ultimately the full business case. With each step, depth is added from research and dialogue with potential partners.

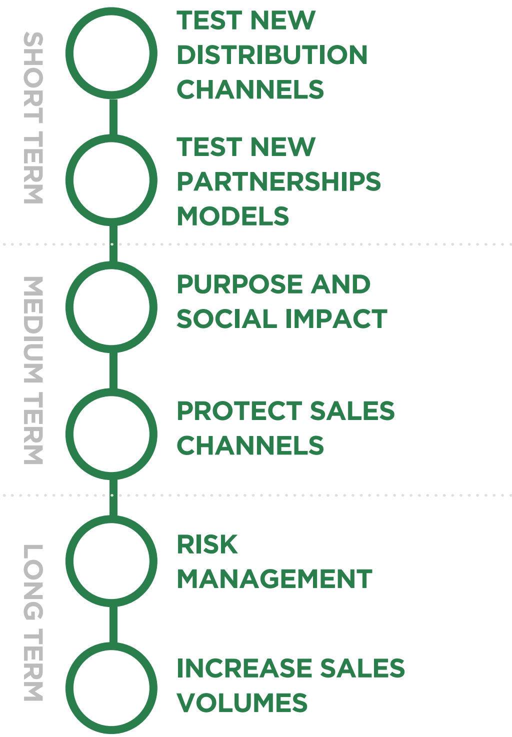
CORE PROPOSITION

The first step is to argue why a collaborative, systems approach will enable growth. Such a "case" is typically required to get the go-ahead to explore the potential of an initiative. Building on the opportunity statement, it shows both the commercial and social impact.

CONCEPT NOTE

The concept note provides a first sketch of activities, intended outcomes, budget as well as a cost-benefit analysis. It will combine information collected during the root cause analysis and partner exploration. A concept note is a good basis for discussions with potential partners.

A hypothetical example of an evolving business case could look like this:



BUSINESS CASE

The proposition should be presented as a detailed business case. The business case will state the objectives and tangible benefits of the proposition, along with the associated costs and timeframe. It will thus enable partners to assess the expected return on their investment.

The business case should acknowledge the dynamic nature of Market Building Collaboration. Since the focus is on improving the "system", often in collaboration with others, it is not always clear what impact an activity will have. Consequently, setting interim targets that focus more on "softer" KPIs linked to reputational / license to operate, stakeholder engagement goals can help to highlight interim progress to management. It is also important to review the approach regularly to ensure new insights are captured.

***CASE STUDY:** BUSINESS PROPOSITION*

PARTNERING TO BRING MICRO-RETAILERS INTO THE DIGITAL ECONOMY

In Mexico, global payments company Visa and iZettle - a PayPal Service, provider of mobile point of sale payment systems, partnered to enable 50,000 micro and small merchants to accept digital payments from customers using iZettle' s card reader technology and Visa's acceptance capabilities.

As participating micro-retailers also need a payment account to receive digital funds from their sales, they are also leveraging simplified accounts offered in Mexico. In some cases, anyone can open a simplified pre-paid account in less than 10 minutes. They just need their name, phone number and ID and the cost to open the account is less than $2.

With this payment account in place, micro-retailers can link their payment credential to their iZettle account and in less than 20 minutes start receiving payments from their customers. They can also manage their business using iZettle in app tools like sales monitoring, product library, inventory control and other management tools.

This process used to take up to four months and in 90% of cases micro retailers were not approved due to minimum sales, lack of proper documentation or complex compliance requirements. Small retailers are also able to build a positive credit history.

In addition, the companies have worked together on promotional and education campaigns to increase merchant awareness, promote usage and offer a better experience to their customer base.

By establishing this payments ecosystem, micro and small businesses, including door-to-door retailers, taxis, mom and pop shops, restaurants and micro merchants in markets and tourist destinations, can now participate in the digital economy, increase their revenues and professionalise their businesses.

For Visa, the partnership has enabled the company to better understand the needs of micro and small business

owners and test innovative ways to serve an unfamiliar customer segment by working with non-traditional partners and new solutions. The initiative also contributes to Visa's social impact mission of advancing financial inclusion and economic growth to enable small business owners to grow and thrive.

For iZettle, the partnership has enabled the company to explore new distribution channels and better understand how to engage micro retailers and other segments including multi-level marketing, delivery and medical services with their value proposition.

PARTNERS

To address the interconnected challenges of SMEs more effectively, Market Building Collaboration combines the resources and capabilities of different complementary partners.

Partners may be other companies, but also non-traditional partners such as governments, donors, funders and CSOs.

Understanding the key stakeholders within a particular market environment, the role they could and should play, their incentives for collaboration and barriers that may hold them back is key to building strong alignment. Prioritise stakeholders who are interested in going beyond a purely transactional relationship and who recognise the need for Market Building Collaboration to address SME needs. Figure 4 shows a generic mapping of potential partners, but the reality is more differentiated and contextual.

Figure 4: Potential partners to engage by barrier

SMEs

ACCESS TO FINANCE

- Banks
- Micro-finance insititutions
- Impact investors
- Donors / funders
- Fintech companies
- Credit bureaus

REGULATORY ENVIRONMENT

- Government agencies
- Regulators
- Local chiefs

MARKETS AND NETWORKS

- Government
- Communities / municipalities
- Large companies working with SMEs
- Business associations

SKILLS AND INFORMATION

- Technology companies
- Civil society and community groups
- Social media firms
- Vocational training providers

The following steps can help with partner identification and engagement:

STAKEHOLDER ANALYSIS

In the first step, companies should get a thorough understanding of the stakeholder landscape. You need to ask:

- Who is currently working with SMEs in the problematic domain(s) (e.g. access to finance)? What can we learn from their experience?
- Who else could support SMEs to address the issue, including the key constraints?
- What incentive do these actors have to improve the performance of SMEs?
- What interest might they have in joining forces with the company? What might hold them back?

PARTNER EXPLORATION

Through landscape mapping, companies can identify potential partners. Companies often opt to engage CSOs or consultancies to address the problem for them but finding complementary partners in other sectors can be much more effective since they come with their own resources and growth objectives. Engaging with new partners creates the opportunity to identify new ideas and approaches to tackling entrenched challenges. For example, new solutions to increase access to financial services may come from start-ups who can harness their technology to tackle issues around finance, capacity or transparency.

PARTNERSHIP AGREEMENT

After mapping and exploratory conversations, companies need to engage in a deeper dialogue with their top potential partners, who will bring their own interests, objectives and cultures.

It is essential that all partners are aligned behind a shared vision and implementation pathway. They also need to agree on appropriate governance structures and processes, roles and responsibilities.

Where paid service providers are involved in the facilitation and implementation, it is important to clarify how the initiative will continue once this support ends, and to build up internal capacity to take the work forward.

PARTNERING TOOLKITS

A range of sources provide guidance to large companies on how to partner with other organisations including CSOs and public agencies. Here are a few pointers:

- Partnering Initiative (2011) The Partnering Toolbook
- Endeva (2019) NGO and company partnerships for inclusive business
- Corporate Responsibility Initiative at the Harvard Kennedy School case studies

CASE STUDY: *PARTNERS*

DANONE PICK-IT

Danone operates in Ghana though its subsidiary FanMilk, which sells a variety of affordable, nutrient rich dairy products to Ghanaian consumers. Growing concern about plastic pollution and plastic waste clogging the drainage system in Accra, exacerbating the effects of floods, has led the government to consider a ban on the use of flexible plastic packaging used by FanMilk and other companies. In Accra, 50% of plastic ends up as litter and the other half is sent to landfill sites where around 5,000 waste pickers work in dangerous conditions to sort the waste and earn a living.

In response, Danone and FanMilk in partnership with Environment 360, Women in Informal Employment Globalising and Organising (WIEGO), Massachusetts Institute of Technology Design Lab (MIT D-lab) developed "Pick-It". The initiative supports waste pickers, who make a living from collecting plastic materials and has developed a recycling business that sorts and sells plastics to recycling businesses. It is funded by Danone's Ecosystem Fund and the Netherlands Development Agency and contributes to Danone's business objective to recycle 100% of its plastic waste by the year 2025.

Danone and FanMilk have engaged a range of stakeholders to develop an integrated solution to the multiple challenges related to supporting waste pickers and building waste management recycling services:

The initiative supports waste pickers, who make a living from collecting plastic materials and has developed a recycling business that sorts and sells plastics to recycling businesses.

- **Danone:** The company has funded the creation of a central plastic waste sorting station and provided business support to create a commercially sustainable business capable of managing different categories of plastic and to establish relationships with recycling companies purchasing plastic.
- **CSOs**: Environment 360°, WIEGO and the MIT D- Lab, co-designed the "Pick-It" project, and provide training and capacity building support to waste pickers.
- **Traditional Institutions:** In Ghana, community-based projects usually require the endorsement of the traditional institution represented by the chiefs who are the custodians of the land. The Tema Traditional Council partnered with the Pick-It project and provided dedicated land on which the sorting center was built as their contribution to the project.
- **Waste Pickers:** In order to ensure inclusivity, the Pick-It project at the very early stage involved two waste picker associations as part of the co-creation process. This ensured that to a great extent the design and implementation of the project reflected the views and needs of the waste pickers.

- **Government:** Government agencies have helped to establish a supportive policy and regulatory environment to facilitate plastic waste collection and recycling and are now working with industry players to establish an Extended Producer Responsibility (EPR) plastic waste management system based on "polluter pays" principles.
- **Industry:** Companies with an interest in plastic recycling, including many consumer goods companies, have formed a broad industry coalition called Ghana Recycling Initiative by Private Enterprise (GRIPE) to help replicate and scale plastic collection and recycling solutions in Ghana.

Starting from an individual initiative by FanMilk, the project has evolved into a platform solution enabling a range of industry players to address a common problem, and to empower waste pickers in the process.

CASE STUDY: *PARTNERS*

BAYER 'BETTER LIFE FARMING' - AN ALLIANCE TO UNLOCK THE POTENTIAL OF SMALLHOLDER FARMERS

In April 2018, the life science company Bayer, the global development finance institution IFC, the irrigation technology firm Netafim and insurance company Swiss Re Corporate Solutions officially launched the 'Better Life Farming' (BLF) alliance, to provide holistic and innovative solutions for smallholder farmers in developing economies. The BLF alliance also brings in other local partners who can create and deliver value for smallholder farmers.

This innovative multi-stakeholder partnership offers smallholders integrated end-to-end solutions such as access to seeds & crop protection inputs, crop advisory, irrigation technologies, training on good agriculture practices, financial literacy and improved market linkages.

In India, for example, 80 percent of farmers are smallholders who farm on less than two hectares of land. As in many other developing economies, these smallholder farmers are vulnerable to challenges such as lack of finance, adverse climate impacts, irrigation management, pests & crop diseases, rural migration and fluctuating commodity prices. Because of these challenges, smallholders are unable to realise their full farming potential.

In July 2018, the 'Better Life Farming' alliance started working in India in the states of Uttar Pradesh, Jharkhand and Chhattisgarh. These states were chosen as pilots after conducting a baseline study to identify regions where local crop yields were significantly lower compared to India's average national yield.

Under the Better Life Farming alliance, Bayer is providing seeds and crop protection inputs along with advisory on integrated crop management practices. IFC is imparting financial literacy and helping family farms run their operations as a commercial business and increase their income. Netafim is creating awareness about precision irrigation and other advanced farming practices that can reduce vulnerability to weather changes. In India, the alliance also works with additional local partners. Yara Fertilisers is educating farmers about balanced crop nutrition and maintaining soil health. DeHaat, AgriBazaar and Big Basket are working as offtakers to ensure that smallholder farmers get the right price and market access for their produce.

With the interventions of the Better Life Farming alliance, farmers have been able to double their crop yields and triple their farm incomes. The alliance plans to expand its presence in India to include three more states: Bihar, Odisha and Madhya Pradesh.

In 2019, the Better Life Farming alliance also introduced an agri-entrepreneurship model for smallholder farmers in the form of 'Better Life Farming centers'. At these centers, agri-entrepreneurs enable transfer of technology to other smallholders on seeds, crop protection, crop nutrition, drip irrigation, and mulching. They also deliver services such as market linkages, access to inputs and crop advisory. Each centre covers a group of 500 farmers from five to six nearby villages. Currently, 63 Better Life Farming centers are operational in India. By 2025, the alliance aims to set up 5,000 Better Life Farming centers and serve 2.5 million farmers across India.

With the interventions of the Better Life Farming alliance, farmers have been able to double their crop yields and triple their farm incomes.

SNAPSHOT: MARKET BUILDING COLLABORATION MODELS

The following identifies three governance models for organising Market Building Collaboration:[6]

- ***Individual initiative:*** One company drives the project and engages different stakeholders in the implementation. With a clear lead, the company decides unilaterally whom to engage, and defines relationships in contracts. This model, which is closest to the normal modus operandi of companies, works when a company can solve the issue with own resources. The Danone Ecosystem Fund is a good example.

- ***Strategic alliance:*** The company co-creates the initiative with at least one partner, who can be from the public, private or civil society sector. This model is appropriate when success depends on the resources and capabilities of others. The Jaza Duka initiative in Kenya is such an example. Another example is a partnership between IDH, Dalberg and Unilever to include more local farmers and SMEs into Unilever's supply chain.

- ***Platform:*** Several companies collaborate in a platform, potentially also with other actors from the public or civil society sector. This model is necessary when the issue is at a sectoral or regional level, requiring many resources and capabilities. Platforms are often used in agricultural value chains, such as Cocoa Action or the Southern Agricultural Growth Corridor of Tanzania. Mining companies have also started using them for regional development initiatives, such as the Limpopo Collaborative Regional Development led by Anglo American. Invest in Africa, founded by Tullow Oil, connects large companies to local SME suppliers in Ghana, improves SMEs access to skills and finance and works to strengthen the business enabling environment.

These three models are broadly associated with different opportunities and risks, depending on the company's objectives.

These three models are broadly associated with different opportunities and risks, depending on the company's objectives.

The potential for scale of SMEs reached, scope of constraints addressed and hence systemic impact increases along the spectrum. Individual initiatives are typically focused on the value chain of the lead company, while platforms address whole commodity value chains or regions.

The risk of losing control and speed also increases with the complexity of the collaboration. While individual initiatives allow for clear attribution of impact and direct links to the business, the link with the individual company is weaker the more partners are involved. As a result, platforms have to tackle incentives to "free-

6 Typology based on Christina Gradl and Beth Jenkins (2011) Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems.

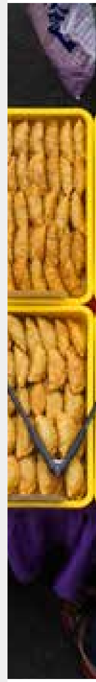
ride" with effective incentive and enforcement mechanisms, especially around the contribution of resources.

Coordination costs and risks also increase when a large number of partners need to be aligned.

Market Building Collaboration can also evolve from one governance structure to another. In the case of FanMilk, an individual initiative later broadened out into a platform. Companies may start small (as small as the root cause analysis allows) and then grow the partnership over time, or start with a broad coalition from the beginning.

Figure 5: 3 Ecosystem Approaches to Support SMEs

	INDIVIDUAL INITIATIVE	STRATEGIC ALLIANCE	PLATFORM
DEFINITION	One company drives initiative and engages different stakeholders for implementation (e.g. NGOs, banks).	At least two organisations (including one company) co-create initiative. Both partners contribute resources.	Several companies collaborate in a platform that is open to new partners.
GOVERNANCE	Company decides Contracts	Steering board MoU	Backbone institution Member commitments
EXAMPLES	AB InBev (Micro-Retailers) Danone (Ecosystem Fund) Bayer (Food Chain Partnerships)	Unilever/Mastercard (Jaza Duka) VISA / Gap (Prakriti) Anglo American/ Government Botswana (Tokafala) IFC/Syngenta/ Last Mile Retailer (LMR) DFID/Unilever (Transform)	Limpopo collaborative regional development Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Better Life Farming CocoaAction Invest in Africa



FINANCE

Financing Market Building Collaboration is about orchestrating resources from different partners in line with their incentives.

These initiatives typically bring together several players with cash and in-kind resources. For example, large companies could provide the seed funding and pay for their own staff activities, a CSO might align its existing activities which are already funded, and a funder might cover the risks and allow the initiative to address systemic issues that extend beyond the limits of the company's value chain. As a result, funding structures can be complex.

Generally, finance is secured through:

These initiatives typically bring together several players with cash and in-kind resources.

INTERNAL FUNDING

Market Building Collaboration is often led by a headquarters team, for example the sustainability department, and supported by the country office. Activities may be supported by a funding mix, with headquarter contributing cash and country office staff time. To lower the entry barriers for socially-orientated projects, internal funding can be shared among multiple teams including corporate affairs, the core business, the social impact team and the foundation. Corporate Venturing and Corporate Impact Venturing can play a role to invest in intermediaries such as innovative financial services providers.

PARTNER FUNDING

Partners will also need to contribute resources. Sometimes it is purely in kind, mainly in the form of staff time and capabilities, and sometimes a cash contribution is involved. Ultimately, who pays depends on the interests and expected paybacks for each partner.

EXTERNAL FUNDING

Market Building Collaboration often brings in government donors, philanthropic foundations or impact investors with aligned interests as co-sponsors. Seeking donor funding can be necessary for a company when internal resources are limited or when programmatic investment is required that goes beyond the core business and value chain and therefore can be difficult to justify, which reinforces the importance of a strong proposition. Donors often get involved when initiatives tackle issues that can be considered "public goods", such as improving financial literacy, infrastructure, or human rights. Funding does not go to the company, rather it typically funds the work of implementing partners like CSOs and community groups. Impact investors are already involved in funding financial solutions and capacity building for SMEs.

Corporate Impact Venturing is also emerging as an approach among large companies to achieve social, financial and strategic objectives. This approach could also work to support SMEs and related actors in the ecosystem of a large company. Danone's Ecosystem Fund points in this direction. It funds activities (albeit mainly by CSOs) around Danone's value chain that strengthen the core business, for example by supporting recycling activities. Donors could facilitate the setup of such funds through catalytic funding that helps to de-risk these investments.

CASE STUDY: *FINANCE*

COLLABORATIVE REGIONAL DEVELOPMENT IN LIMPOPO

Limpopo province in South Africa boasts rich mineral resources, including diamonds and platinum, and is hence a premier mining area. Despite the natural richness, the population in Limpopo remains largely poor, with low literacy and skill levels and high rates of unemployment. The lack of infrastructure, including sanitation, water and housing, as well as limited health care services affects the productivity of mining workers, and the lack of economic development beyond mining sites creates dependency on mining which make the economy and communities especially vulnerable to a decline in mining activity or economic shocks.

Anglo American has initiated a Collaborative Regional Development programme in order to transform the region together with partners. By focusing regionally and taking a collaborative approach, Anglo American combines its own resources with those of partners including government, to support the development and growth of other industries outside mining. This approach intends to reduce the dependency on mining and create/support alternative livelihoods, whilst also driving welfare improvements across the whole province.

To this end, Anglo American has partnered with the mining company Exxaro Resources, the Council for Scientific and Industrial Research (CSIR), the Office of the Premier in Limpopo Province, and World Vision International to set up the Impact Catalyst, a backbone organisation that promotes a common agenda for development and catalyses positive socio-economic impact across the province. One example pilot project, in partnership with the University of Pretoria, recruits and equips health care workers to provide preventative care to households. Resources are pooled from all actors, while also aligning programmes with national, provincial and local government priorities. These resources will be further leveraged by bringing other cross-sectoral organisations on board for specific initiatives.

SNAPSHOT: OPPORTUNITIES TO SECURE FINANCE AND SUPPORT FROM DEVELOPMENT ORGANISATIONS

Market Building Collaborations address several SDGs, including Goal 1: No poverty, Goal 5: Gender equality, as well as Goal 8: Decent work and economic growth. Consequently, the efforts of large companies to improve the performance of their SME partners align with the objectives of development actors, including governments, donors, foundations, development agencies, and impact investors. These players have their own funding and initiatives in place that can be leveraged to fill gaps and achieve a wider reach. To do this, large companies can either align their activities to current programmes, or attract direct funding for an initiative:

Large companies can either align their activities to current programmes, or attract direct funding for an initiative.

- Development funding can go to the company, typically in the form of a matching grant, to an implementing partner like a CSO, or to a special purpose vehicle, such as a platform that brings different players together.
- Existing development initiatives may be aligned with the objectives of the large company. For example, Market Building Collaboration typically includes a capacity development and financing component. Existing development initiatives around SME development, financial inclusion or rural development may provide just that. For example, the pharmaceutical company Novartis partnered with the International Finance Corporation (IFC) to use the IFC Business Edge initiative to train distributors and pharmacies in Egypt on business skills.

3. CALL TO ACTION

Market Building Collaboration offers the potential to combine the comparative advantage of large companies, government, SME service providers and funders and drive SME growth more sustainably and at scale, benefitting large company value chains, communities and economies.

Different sectors need to seize the opportunity to combine their resources and capabilities in a systematic way to magnify their impact, both in terms of commercial and social results.

Different sectors need to seize the opportunity to combine their resources and capabilities in a systematic way to magnify their impact, both in terms of commercial and social results.

The challenge of this promising approach lies in its complexity. As multiple players are involved, aligning behind a shared goal requires solid analysis to identify opportunities, effective dialogue and targeted funding.

Large companies and their partners should focus on three priorities to realise the potential of collaboration:

1. IDENTIFY COLLABORATION OPPORTUNITIES

Seeing the potential for Market Building Collaboration is complicated by the fact that each individual player only sees part of the opportunity from their vantage point. The first step to identify these opportunities is to realise that potentially there are partners out there who share the goal of supporting SMEs in a given location or sector.

NEXT STEPS:

LARGE COMPANIES

Large companies can be more deliberate in engaging other companies, including value chain partners and suppliers and more broadly through industry sector platforms or local business networks, to identify shared challenges and opportunities for supporting SMEs. In addition, networks bringing together large companies, such as World Business Council for Sustainable Development (WBSCD) or World Economic Forum (WEF), could also bring players from other sectors to the table to champion SME growth.

Invest in Africa is a collaboration of private companies, public bodies and donor organisations that support local African businesses by creating access to markets, skills and finance. With offices in Ghana, Kenya and Senegal, it already works with more than 3.000 SMEs and links them to value chains. This type of platform initiative can support Market Building Collaboration on a broader scale, enabling companies and other actors to pool resources and complement each other.

GOVERNMENTS

National governments and international government donors can map opportunities for Market Building Collaboration in certain sectors or regions and play a leadership role in convening stakeholders around these opportunities. Through its African Agribusiness Supplier Development Programme, UNDP, for example, pinpointed opportunities for large companies to integrate smallholder farmers into their value chain in six countries. The programme also identified the challenges to collaboration and brought players together to coordinate their actions.

> *Strong facilitation can help to move individual players towards more concerted action.*

SERVICE PROVIDERS AND FUNDERS

Service providers and funders that support SMEs and work in partnership with large companies can also invite other players to join the collaboration. For example, ANDE has set up a Corporate Initiative to bring large companies into the dialogue about SME growth in developing markets. ANDE, with support of several foundations, is also conducting an analysis of the SME ecosystem in Gulu and Kampala in Uganda. These types of analyses can identify entry points for large companies and other players.

2. FACILITATE COLLABORATION

Cross-sector collaboration, especially with multiple players, is challenged by different interests, organisational mindsets and languages. Corporates, SMEs and their partners and supporters rarely meet beyond the transactional level. Strong facilitation can help to move individual players towards more concerted action.

NEXT STEPS:

LARGE COMPANIES

Large companies can invite others to join their initiatives. Adding partners with complementary skills and portfolios can help to gain scale, share costs and increase effectiveness.

For example, there is significant momentum building to support micro-retailers and strengthen last-mile distribution networks. Complementary players such as FMCG companies, mobile network operators and banks all face similar challenges here that are better addressed together. In Kenya, Unilever has joined up with

National governments need to play an active leadership role in bringing together different actors to address SME constraints.

Mastercard and Kenya Commercial Bank to provide credit to small shops. In Ethiopia, Unilever is experimenting with an "open basket" model, inviting other companies to join their last mile distribution efforts.

GOVERNMENTS

National governments need to play an active leadership role in bringing together different actors to address SME constraints. They can also provide appropriate policy frameworks and incentives to galvanise action. Many national governments already have policies and agencies to support SMEs. Linking up with large companies can help to make this support more targeted and demand led.

Existing government donor initiatives with a systems approach can integrate large companies into the process. For example, UNDP brought together the large mobile network operators, banks and supermarkets in Lesotho to discuss how mobile money could work better in the national context.

Government donors have a strong role in developing platform solutions, using their convening power to bring key players together and then catalysing action using technical assistance, risk financing and policy levers. Especially where multiple large companies face similar issues, donors can link the various players with an interest in supporting SMEs, help align activities and achieve better outcomes. This is especially the case in commodity value chains. Where commodity-related multi-stakeholder platforms already exist, as in cocoa, coffee, cotton, or palm oil, they should put strengthening SMEs onto the agenda.

SERVICE PROVIDERS AND FUNDERS

The role of the neutral "catalyst"[7] can be played by in-country industry associations and networks with the necessary convening power and influence to engage local actors, and at the regional and global level through networks such as ANDE or Invest in Africa. Specialised service providers such as TechnoServe and FUNDES have also played the role of the facilitator and "backbone organisation" in complex partnerships.[8] The Gatsby Foundation is taking a long-term approach to building competitive sectors for tea, cotton, textiles or forestry in East Africa. It facilitates cooperation between producers and large buyers and invests in building the competitiveness of SMEs.

7 Kaplan, Serafeim and Tugendhat (2019) Intelligent Design of Inclusive Growth Strategies.
8 FSG (2014) Collective Impact

3. PROVIDE CATALYTIC FUNDING

New funding solutions are necessary to reflect the complex and dynamic nature of Market Building Collaboration. Blended finance solutions, which pool risk capital from private investors with guarantees and first-loss facilities of donors as well as philanthropic capital, could ease coordination of capital flows.

Market Building Collaboration is a new approach with a lot of potential to achieve commercial and impact objectives. However, much needs to be learned about how to best implement the approach. Hence, catalytic capital is needed to test, learn and improve.

New funding solutions are necessary to reflect the complex and dynamic nature of Market Building Collaboration.

NEXT STEPS:

LARGE COMPANIES

Large companies can leverage corporate venture capital to invest in companies that strengthen critical SME partners. Pioneering companies have set up specific Corporate Impact Venturing funds specifically for this purpose.[9] Danone's Ecosystem Fund, for example, funds activities around Danone's value chain that strengthen the core business, for example by supporting SMEs that recycle plastics.

GOVERNMENTS

Governments could issue SME Bonds, in the same way they offer Green Bonds, to attract capital to SME growth. Government-led bonds have proven very successful in catalysing capital for desired outcomes, for example by providing tax incentives. Governments can take a similar approach to strengthen SME finance, thus enabling companies to invest in SME growth.

For international government donors, investable funds that link to large company value chains as an anchor partner of SMEs could leverage the market power of large companies to generate investments into SMEs. Government donors are able to de-risk investments and leverage private sector funding through innovation challenge funds. They can also co-finance pilot activities that can drive system innovations in order to substantiate a business case or establish a proof of concept. In addition, government donors can financially support backbone structures in platform initiatives that coordinate collaboration between large companies, public agencies and CSOs.

9 Tewes-Gradl, Schmidt, Sinha and Leahy-Wright (2017) Inclusive Business: Make or Buy? Corporate Impact Venturing at the Base of the Pyramid.

Impact investors could set up third party funds that pool money from different organisations for the purposes of strengthening SME ecosystems and generating financial returns.

SERVICE PROVIDERS AND FUNDERS

Impact investors could set up third party funds that pool money from different organisations for the purposes of strengthening SME ecosystems and generating financial returns. Such funds can attract investment from the market, thus further spreading risk beyond the large companies involved. These funds can be used to finance critical up-front ecosystem investments into SMEs across the value chain of large companies that are often too costly for companies to invest in individually.

Market Building Collaboration can amplify the impact of individual actions of large companies, government donors, service providers and funders to strengthen SMEs. By strengthening the ecosystem and addressing gaps in financing, skills, networks, and the regulatory environment, these initiatives can drive sustainable and broad-based growth of SMEs.

As interest in supporting SMEs grows across different sectors, the time is now ripe to seize the opportunity together.

APPENDIX **RELEVANT READS**

The concept of Market Building Collaboration builds on three strategies that have increased in relevance for large companies over the last decade.

BUSINESS ECOSYSTEMS

Digitalisation and globalisation have led companies to seek competitiveness by finding a clear niche and strengthening their business ecosystem. The concept of a "business ecosystem" was put forward by James Moore in an article in 1993.[10] A business ecosystem is defined as "An economic community supported by a foundation of interacting organisations and individuals—the organisms of the business world." This biological analogy has received significant attention in the context of doing business in developing markets, where the enabling environment is weak.[11] By building ecosystems of supportive players, large companies can overcome these barriers.

A recent report by FSG "The Social Ecosystem Dilemma and How to Fix It. A guide to business", highlights how companies are starting to drive change in the social ecosystems that matter most to their businesses.

PARTNERSHIPS

On a similar note, cross-sector partnerships have been explored by many large companies over the last decade to combine complementary resources and capabilities. A 2017 report[12] by Jane Nelson argues that such partnerships can help to address some of the market failures, governance gaps and trust deficits that undermine the acceleration and scaling of business engagement in sustainable development.

SYSTEMIC APPROACHES

Systemic approaches to problem solving focus on the interdependencies between actors, rather than on individual actors. They analyse how incentives (generated by rules and regulations, values and mindsets, or social structures and relationships) lead to actions, and how these individual actions lead to collective outcomes, which can be desirable or undesirable. In order to change outcomes, system approaches look for ways to reconfigure the interdependencies between actors, including by changing underlying incentives.

Many different practical approaches build on this perspective. System practice provides an analytical tool to understand systems and find leverage points (see Omidyar Network's course on +ACUMEN). Theory U provides a process for generating systemic change with a group of actors. Systemic consulting (as developed, e.g. by Fritz Simon, Gunther Schmidt or Gunthard Weber) provides tools to design interventions for systemic change.

10 James Moore (1993) Predators and Prey: A New Ecology of Competition. Harvard Business Review.
11 For example Beth Jenkins and Christina Gradl (2011) Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems. Harvard Business Review.

12 Jane Nelson (2017) Partnerships for Sustainable Development. Collective action by business, governments and civil society to achieve scale and transform markets.

APPENDIX **DONOR FUNDING LANDSCAPE ANALYSIS**

A review of the current funding landscape reveals that the support for Market Building Collaboration is nascent and patchy. The table below lists initiatives along the types of donor support and differentiated between public donors and private donors.

FUNDING FOCUS: IDENTIFY OPPORTUNITIES

PUBLIC DONORS (e.g. government donors, multilateral donors, DFIs)

MAPPINGS/SCOPING

- **UNCDF** and **Finmark Trust** conduct FinScope mappings (MAP diagnosis) in Southern Africa to understand the consumer side, the ecosystem and stakeholder interests, market risks and opportunities

DEVELOPMENT OF TOOLS

- **IFC** developed standardized tools and approaches around SME capacity building in collaboration with corporates to solve the issue of professionalisation along the supply chain (e.g. as part of AMEA alliance or ISO).
- **UNDP** developed the African Agribusiness Supplier Development Programme (ASDP) Toolkit to connect Large companies and local SMEs

MONITORING & EVALUATION

- **GIZ** led the M&E component of the vanilla partnership with Symrise and Unilever in Madagascar

KNOWLEDGE SHARING

- **IFC** developed case studies to document strategic alliances with large companies
- **UNCDF** published case studies on strategic alliances as part of the “better than cash alliance”
- **UN Global Compact Network** can be used to disseminate information across +10k companies

PRIVATE DONORS (e.g. private foundations, networks)

MAPPINGS/SCOPING

- **ANDE and IGC** conduct research on SME needs and conducive policies

DEVELOPMENT OF TOOLS

- **ANDE’s catalyst funds** create tools and insights that can help the SME sector as a whole (only indirectly linked to Large companies)

KNOWLEDGE SHARING

- **Gatsby Foundation** shares insights on what works and doesn’t in their collaboration initiatives with Large companies and local SMEs

FUNDING FOCUS: FACILITATE COLLABORATION

PUBLIC DONORS

CONVENING

- **UNDP** convened large companies, local SMEs and public agencies as part of the Inclusive Business Ecosystem Initiatives (IBEI)

FACILITATION

- **The World Bank, UNDP, GIZ, DFID** and others have successfully initiated and implemented platform initiatives, mainly in agricultural value chains (e.g. for SAGCOT, GWSP, 4C)

PRIVATE DONORS

CONVENING

- **ANDE** convenes Large companies and SMEs and facilitates exchange and collaboration as part of their Corporate Partnerships Learning Lab
- **World Economic Forum (WEF)** is a successful convener and host organisation (e.g. for SAGCOT)

FACILITATION

- **Gatsby Foundation** facilitates collaboration processes

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APPENDIX **DONOR FUNDING LANDSCAPE ANALYSIS**
(CONTINUED)

PUBLIC DONORS (e.g. government donors, multilateral donors, DFIs)

FUNDING FOCUS: PROVIDE CATALYTIC FUNDING

EARLY STAGE

- Initiation: **Norwegian Embassy**, **Norfund** and **FAO** provided funding for the initial concept note of SAGCOT
- Planning Stage: **USAID**, **Norwegian Embassy**, **Norfund** and **AGRA** provided funding for the detailed investment plan of SAGCOT

IMPLEMENTATION STAGE

- **Catalytic Funding:**
  - **USAID, World Bank, DFID and Norway** provided funding for SAGCOT.
  - **DFID** provided funding for the Catalyst Initiative.
  - **DFID, GIZ/DEG, ADA, USAID** (and others) provide funding for SDG-oriented initiatives
  - **IADB's** Multi-lateral Investment Fund provided funding for AB Inbev 4E Programme.
  - **IADB** provided USD 2 million co-financing to the Beyond Extraction Programme, an Anglo American initiative to support rural SMEs in mining communities.
  - **USAID and IADB** co-financed the Haiti Hope Project, a PPP with Coca Cola Company to build capacity of Producer Business Groups in the Mango value chain.
  - **GIZ** provides co-funding as part of their MAKE-IT in Africa Alliance
  - **Sustainable Trade Initiative (IDH) and IFC** provided co-funding of USD 4.5 million to improve operations coffee aggregators and processors in Kenya and Ethiopia as part of Nespresso's AAA Sustainable Quality Program.
- **Backbone support:**
  - **USAID** and **Norfund** provided funding for the SAGCOT secretariat
  - **UNDP** provided base funding for the initial phase of IBEI

PRIVATE DONORS (e.g. private foundations, networks)

EARLY STAGE

IMPLEMENTATION STAGE

- **Catalytic Funding:**
  - **Bill and Melinda Gates Foundation** and **USAID** provided funding for Cocoa Action
  - **Bill and Melinda Gates Foundation** co-funded Project Nurture, a partnership with the Coca-Cola Company to support smallholder fruit farmers in Uganda and Kenya with access to inputs, markets, finance and training.
  - **Argidius Foundation** provides match funding to the Catalyzing SGB Acceleration Initiatives (CaSA) to spur corporate investment in SMEs.

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ABOUT THE AUTHORS

This guide was written by *Richard Gilbert* (Business Fights Poverty), *Dr. Christina Tewes-Gradl* (Endeva) and *Christian Pirzer* (Endeva).

With its origins dating back to 2005, *Business Fights Poverty* has grown into one of the world's largest business-led collaboration networks focused on social impact. *Business Fights Poverty* has launched a wide variety of Challenge-based collaborations with many of the world's leading companies, civil society organisations and development agencies.

Endeva is a system change facilitator with the mission to make the global economic transformation inclusive. We tackle today's development challenges by empowering the businesses of the future. We curate systems change for the SDGs to achieve impact at scale.

Market Building Collaboration unlocks SME growth at a more fundamental level than individual companies can on their own. It leverages an opportunity that often remains overlooked, namely that SME growth is a shared interest of large companies, governments and those who support SMEs through services, training and funding.

Business Fights Poverty

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