



MAKING MARKETS WORK FOR THE POOR ON THE CHARS : CLP'S LEARNINGS

BACKGROUND

CLP aimed to lift 78,000 households out of extreme poverty while also benefitting communities through improved water, sanitation and reducing their vulnerability to natural disasters such as river erosion and floods.

To achieve this goal, CLP provided each core participant household (CPHH) with an income-generating grant valued at Tk. 17,500 (£152). The vast majority of CLP's participants chose to invest in cattle, marking their shift from a livelihood based on insecure (and poorly paid) daily agricultural labour, to earning income from selling livestock products.

However, this change in livelihoods was based on a few important assumptions:

- participants would learn effective livestock production / management techniques and successfully apply them.
- the markets existed to provide inputs that will allow CPHHs to raise healthy livestock.
- services such as para-veterinary expertise were available to help them diagnose and treat common livestock diseases.
- chars-dwellers could access markets to sell their products once their cattle matured and
- these market systems would function effectively enough to allow participants' small-scale livestock-based businesses to continue to grow.

These were major assumptions, and CLP recognised in Phase 2 that it was necessary to go beyond providing assets and training. While CLP's inputs may have helped stabilise participants' incomes at a higher level, to reduce their continuing vulnerability and promote a feasible pathway from poverty entailed making markets work better for the poor.

As a result, CLP adopted the 'Making Markets Work for the Poor (M4P)' approach to encourage systemic market change in the meat, milk and fodder markets in the chars. The M4P approach is based on the understanding that markets are important for poor women and men, and that economic growth is one of the main contributors to poverty reduction. Competitive and inclusive economies require systems for the exchange of goods, services and commodities, i.e. markets that operate effectively for everyone but especially for the poor as consumers, producers or employees. In the context of the M4P approach, a market system is seen as a multi-function and multi-player arrangement comprising the core function of exchange, several supporting functions and rules and regulations for the system which are performed and shaped by a variety of market players. Market systems change is a change in the way that supporting functions and rules perform such that they ultimately improve the poor's terms of participation within the market system.

Several lessons have been learned from the Programme's projects in these market areas.



Lesson 1:

Constraints to Doing Business on the Chars Required New Business Models From Market Players – And the Right Skills and Experience



Lesson 2:

Encouraging the Emergence of an Enterprise Culture Requires Direct Interventions, Business Services and Support Functions, and Changes to Systemic Rules



Lesson 3:

"Stretching" the Sustainable Livelihoods Approach to include M4P Brings Behaviour Changes and Opportunities for Growth

LESSON 1: CONSTRAINTS TO DOING BUSINESS ON THE CHARS REQUIRED NEW BUSINESS MODELS FROM MARKET PLAYERS – AND THE RIGHT SKILLS AND EXPERIENCE

Producers on the chars suffer from several constraints, including geographical remoteness due to both distance and difficulty in travel (no roads, considerable periods without easy access via boat); lack of other infrastructure such as buildings and physical market places; low levels of basic public services such as electricity; and the perception of being a small, risky and low-profit market.

Using the M4P approach, CLP supported the growth of market players on the chars, such as Chars Input Dealers (CIDs) to sell inputs to producers, Livestock Service Providers (LSPs) to provide para-veterinary services, and Chars Business Centres¹ (CBCs) to be the locus for encouraging and creating links between chars-based markets actors and those on the mainland.

With new market players beginning to flourish across the value chain, CLP was able to encourage market actors, such as the big commercial feed suppliers, to engage more proactively with chars-based entrepreneurs. While products and brands were known to farmers on the chars, access and pricing were problems.

A significant breakthrough was when CIDs were able to engage with various big market players to become dealers and sub-dealers on the chars themselves, moving the inputs market considerably closer to producers. Without the support and linkages provided by CLP's market interventions, the mainland sales centres may have remained the closest inputs point for many more years, putting quality inputs beyond producers' easy reach for some time.

More challenging has been the attempt to engage financial providers in making appropriate financing products available. The chars are considered high risk due to their remoteness and vulnerability to natural disasters such as erosion. Many micro-finance institutions and larger credit providers were therefore reluctant to increase their exposure.

Nevertheless, over the course of three years, CLP and its partners successfully engaged with United Finance to develop and pilot-test a series of appropriate credit products, tailored to suit the business cycle of milk and meat producers.

Many micro-finance providers that were active on the chars or close by were reluctant to offer such products. Livestock-based businesses often require significant capital up-front to buy cows or bulls and the inputs necessary for their growth and health (feed, fodder, veterinary drugs and services). However, these investments often need time to 'mature' before money begins to flow and loans can be repaid.

In the case of cattle bought for sale to the meat market, at least three or four months are needed while the bull grows to a profitable weight. Heifers may need to be impregnated and then give birth before they can be milked. Having to wait several months before re-payment imposed cash flow constraints on micro-finance institutions and increased their perception of the risks. As a result, these businesses were not considered suitable for

the micro-finance products available on the chars, which often required weekly re-payment almost immediately.

The implementation of these appropriate financing products began with a pilot that was developed during 2012. It began being scaled-up during late 2015 and early 2016, although CLP will have closed before the next phase of loans is complete. This illustrates the challenges of persuading cautious market actors to take on new markets and business models that come with unknown risks. Significant time and a slow, almost 'micro-pilot' approach was required to demonstrate proof-of-concept and convince private sector providers that the risks (non-payment, poor management performance leading to reduced profitability) were outweighed by producers' ability to both manage the technical aspects of their business and successfully re-pay the loans.

It also illustrates that programmes such as CLP some times need to engage in innovative approaches to encourage such risk-taking. In this case, CLP committed to making investments in the scale-up of the financial products, even though it was ending and thus would not be able to monitor the whole of the scale-up phase. This was possible because CLP had a close working relationship with a sister project, the Making Markets Work for the Chars project (M4C), funded by Swiss Development Cooperation (SDC). With the support of both SDC and DFID, the M4C project will continue to work with United Finance to support this access to finance project even after CLP ends. The flexibility and institutional capital required to support this kind of 'handover' in responsibilities is, in CLP management's experience, unusual and evidence that innovation and calculated risk-taking is both appreciated and supported by the donors involved.

United Finance declared it was committed to scaling-up in the chars, but without this support it would have scaled-up organically over much longer timescales, thus putting an obstacle in the path of many entrepreneurs' ability to grow and expand. This rapid scale-up met CLP's objective of working to ensure its participants continued to access support required, as well as meeting M4C's objectives to make markets work better on the chars.

¹CBCs are collective action organizations whose members are farmers and other businesses operating in the char. It is a central and apex body for local business groups, input providers and buyers to facilitate a better and more productive and profitable business environment for all types of char value chain actors in the milk, meat and fodder sectors.

A further learning is that the private sector needs to develop and understand the business case for how they can engage with the chars. CLP has been instrumental in working with them to formulate this. It is not enough to create awareness of potential markets or even to do pilots with private sector – they need more. Doing business on the chars invariably requires them to develop a new business model² as it is unlike any other environment they encounter in Bangladesh. Our partners are established businesses operating profitably in national markets. However, extending their reach into the chars required them to overcome challenges such as geographic isolation and a lack of business and social infrastructure. CLP supported their search for repeatable and scalable business models by working alongside them as they explored and built new ways of doing profitable business.

A new business model can be a significant 'barrier to entry' for market actors. CLP discovered that facilitating private sector involvement with the chars needs to be done by specialists with knowledge and skills of the specific product/service. CLP's milk breakthrough was facilitated by staff with expert knowledge of milk

production in Bangladesh. Similarly the work on input markets was done by a contractor with a long record of success in this field.

Working with a government market player, for example to provide veterinary services, is desirable where public services need to be accessed (e.g. vaccinations) but the incentives need to be understood and aligned. CLP knew that the Government of Bangladesh's reputation and reach was poor and limited but the vaccines were good quality (here the private sector was providing poor counterfeit products). Through creating a linkage with LSPs the government was able to deliver better extension services and meet its public obligations for animal health and prevention of diseases.

²A business model describes how the business creates, delivers and captures value. When changing the business model the business goes through a search phase and then execution of the selected model. During the search phase (building a business model) CLP helps market actors identify unmet needs, design viable products and services and get their pricing right. During the execution phase we support them to get the product to market (Loans through the CBC network) as well as scaling-up.



LESSON 2: ENCOURAGING THE EMERGENCE OF AN ENTERPRISE CULTURE REQUIRES DIRECT INTERVENTIONS, BUSINESS SERVICES AND SUPPORT FUNCTIONS, AND CHANGES TO SYSTEMIC RULES

If households are to sustain their 'graduated' status and not fall back into poverty, the market environment into which they graduate needs to accommodate their business aspirations.

The chars economies generally lack essential business services and face other constraints: limited access to relevant information (e.g. market prices and market actors), limited appropriate finance, poor technical advice, high costs of mainland feed, and no-one to represent and support producers.

Given these challenges, CLP assessed that it was unlikely that the ambition of producers to grow would be realised. CLP concluded that accessing these from outside dramatically increased the cost of doing business for all parties, but without access to these services the chances of supporting farmers to take the next step – such as grow their businesses – would be challenging.

The strategy to invest directly in essential support functions was based on this thinking. It built on sustainable livelihoods approach principles to invest in productive assets and create / support local level institutions to support producers (the Char Business Centres [CBCs]), but also to support behaviour change, technical capacity-building, linkages and collaboration, which is the M4P approach.

The CLP approach also used an M4P framework to analyse the market system, identify interventions and directly invest in business development services to address absent or inadequate support functions and rules. Collectively the investments aimed to create an enterprise culture on the chars where starting and growing a business is considered a desirable activity.

Farmers needed to buy into behaviour change to manage their livestock more professionally and productively, while other market actors needed to see

the profit opportunities that this behaviour change provided.

In supporting market actors, CLP learned that it should look to the whole of the char for business-minded persons. Existing retailers, paikers (livestock traders) and goalas (milk collectors / traders) already displayed entrepreneurial behaviours and thus were a natural 'target' when aiming to establish market actors. They had good knowledge of what was happening on the char as well as having links with the mainland. This strategy paid off, with LSPs and CIDs becoming the 'engine' driving continued growth and opportunities in many CBCs.

CLP provided subsidised services such as feed and medicines using a voucher system under its core support to participants. However, once CLP assistance was complete, these subsidised transactions needed to convert into 'real' cash purchases from service providers and traders. CLP found that this did occur, as participants and other producers could see the benefit in terms of their own profit returns. CLP supported this by stressing the link between using quality inputs/services and increasing profitability during its 18-21 month assistance period.

Chars are cut off and isolated and the need for business information and coordination of businesses on the chars is universal. CLP's CBCs were designed to overcome this. The CBC has elements of a business association, cooperative and NGO embedded in its management and operations. They were remarkably effective as gateways for private sector as well as aggregators of char products. The more successful CBCs are constantly searching to grow the value they offer members and CLP's support to CBCs included building the capacity of CBC leaders to generate business opportunities with private sector market actors.



LESSON 3: “STRETCHING” THE SUSTAINABLE LIVELIHOODS APPROACH TO INCLUDE M4P BRINGS BEHAVIOUR CHANGES AND OPPORTUNITIES FOR GROWTH

The CLP livestock / livelihood training activities, based on DFID's Sustainable Livelihoods Approach, were comprehensive and integrated. Over a period of 18-21 months, CPHHs benefited from intensive capacity building and accessed a range of subsidised services all aimed at ensuring technical and business competence.

To support the adoption of new technologies and practices, CLP asked CPHHs to reflect on their performance and, through sharing and comparing, make changes to the way they farmed. CLP also exposed them to key market actors on the char and in areas close by.

A great deal of useful information was gathered which we helped CPHHs to process so that they could take action based on it. Knowing what to do and actually doing it is a challenge for most businesses. During 2012/13, CLP therefore introduced demonstration farmers.

Prior to this CLP delivered a 'standard' livestock training package to CPHHs using a traditional model where farmers are exposed to new technologies and practises under the constant supervision of an extension officer. CLP observed that despite offering the full package the output in terms of product and productivity improvements (bigger livestock, more good quality milk) did not meet expected targets and CPHHs were reluctant to follow suggestions.

In conceptualising the demonstration approach, CLP realised that behaviour change was not an outcome of being taught new technologies and practises but rather a driver for the adoption of new technologies and practises.

With a new focus on behaviour as a driver, the demonstration product was incorporated into the CLP programme and targeted at the whole of the char. The approach allowed farmers and other members of the community to 'see and learn' first-hand how changing their cattle husbandry and management practices, through simple innovations, could increase the productivity of their cattle.

The cost of these demonstrations³ was less than 0.5% of the livelihoods budget, and the success of this approach depended on motivated Demonstrators. The lessons CLP can share regarding demonstrators are:

- They needed to be part of the livestock group which means they were seen as 'one of us'. This association and kinship encourages CPHHs to try to copy what they see the demonstrator doing. They were less likely to feel that the demonstration farmer's success was due to being somehow different from them.

³CLP's demonstration package included orientation meetings, awareness training and group sharing events.

- They needed to be 'self-selected' in an open forum to further underscore their credibility with group members. In CLP an additional requirement was placed on the demonstrator to purchase a 'better' animal by topping up their asset transfer subsidy by at least 14-20%. The investment also served as a signal to the group that investing in the asset is a good thing.
- They needed to commit to following all recommended livestock guidelines and fully comply with the guidance and advice of livestock officers. The willingness to respond to advice is an important behaviour which others need to see as the advice often challenges traditional thinking.
- They needed to be conduct their business in full sight of the whole char and be prepared to share their successes and failures with all farmers.

The outcome was to equip all producers with the mindset to manage a small livestock business successfully. Farmers had their awareness of production techniques raised with real-world examples of the benefits (increased profitability, opportunities for growth) that come from behaviour change. They were exposed to 'copycat farmers' and linked with market actors responding to new demand for feed and medicines, as well as traders beginning to seek out and pay higher prices for better CLP-reared bulls without any further programme intervention.

The combination of the sustainable livelihoods approach and M4P has helped to change producers' behaviour, moving them away from their traditional subsistence mindset and opening the door for new learning and thinking. As a result, many producers involved in CLP's markets interventions are seeing greater productivity and, crucially, higher incomes. This gives them the chance of continuing to grow and expand their business, continuing their journey away from poverty and into a less vulnerable and more sustainable future.

If you wish to learn more about CLP or the lessons learnt series of briefs please visit the CLP website www.clp-bangladesh.org.

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