



## **Business Case for Private Sector Led Poverty Alleviation: The Case of Prawn and Vegetable Sectors in Bangladesh**

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## List of Acronyms

ADB	Asian Development Bank
BADC	Bangladesh Agricultural Development Corporation
BARI	Bangladesh Agricultural Research Institute
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BDS	Business Development Services
BER	Business Environment Reform
BSAFE	Bangladesh Safe-agro Food Efforts Foundation
CEO	Chief Executive Officer
CPD	Centre for Policy Dialogue
CSR	Corporate Social Responsibility
DCED	Donor Committee for Enterprise Development
DMFA	Dutch Ministry of Foreign Affairs
DoF	Department of Fisheries
EJB	Embassy of Japan in Bangladesh
FDI	Foreign Direct Investment
FIQC	Fish Inspection and Quality Control
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
GDP	Gross Domestic Product
GG	Green Growth
GNP	Gross National Product
I-PRSP	Interim Poverty Reduction Strategy Paper
IFC	International Finance Corporation
ILO	International Labour Organization
KI	Key Informant
LCG	Local Consultative Group
LED	Local Economic Development
LIC	Low Income Country
M4P	Making Markets work for the Poor
MDG	Millennium Development Goal
MoA	Ministry of Agriculture
MoFA	Ministry of Foreign Affairs
MNC	Multi National Corporation
MSV	Mobile Seed Vendor

MT	Metric Ton
NGO	Non-Governmental Organization
NSAPR	National Strategy for Accelerated Poverty Reduction
NSEGPRSD	National Strategy for Economic Growth, Poverty Reduction and Social Development
OECD	Organisation for Economic Co-operation and Development
PPP	Public-Private Partnership
PSD	Private Sector Development
R&D	Research and Development
RCT	Randomized Control Trial
RNF	Rural Non-Farm
SCA	Seed Certification Agency
SME	Small and Medium Enterprise
TOP	Top of the Pyramid
UNDP	United Nations Development Programme
USD	US Dollars
VCD	Value Chain Development
WB	World Bank
WED	Women's Entrepreneurship Development

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## **Abstract**

Despite the recent excitement regarding Private sector led poverty reduction, there has been little evidence on how they can uniformly do so, especially by incorporating poverty reduction goals in business strategies. This research is an attempt at highlighting the means by which business enterprises in developing countries like Bangladesh may benefit the poor through increased incomes and jobs by making profits themselves. By analyzing market development interventions conducted by one of the most proclaimed private sector development projects, Catalyst, this research draws out the enabling and deterring factors to business growth and poverty reduction. The research findings point to the need for governments and donors to create an enabling business environment through which business enterprises can have better access to growth capital; can make long term investments, specially on research and innovation; ensure improved co-ordination with the relatively poor value chain actors; and thus benefit from increased profits and business expansion. It is established in the research that businesses in developing countries cannot ignore the empowerment of the poor in terms of incomes and jobs because it benefits them directly with higher profits.

## **Keywords**

Private sector, market development, poverty reduction, enabling business environment, government, research and innovation, growth capital, incomes, jobs.

# Chapter 1 Introduction

This paper is a result of an analytical and reflective assessment of the market development interventions conducted by Swisscontact-Katalyst in Bangladesh, specifically in the prawn and vegetable value chains. It is based on both my own work with the organization for two and a half years, and additional field and desk research. The approach taken by Katalyst is that of Making Markets work for Poor (M4P) which has itself branched from the more mainstream Private Sector Development (PSD) stream of thought. PSD has been implemented by various donors and governments alike with the aim of improving market systems in developing countries in a manner that it creates incomes and employment for the poor. My work in the fields with value chain actors in sectors where poor are heavily engaged and literature review show that there is need to better understand how contextual and structural issues in developing countries influence the PSD agenda. Such an understanding has the potential to elicit the key factors that enable the business enterprises in countries like Bangladesh to contribute to a broader poverty reduction goal of increased incomes and job creations for the poor. This paper critically analyzes the basic assumptions regarding the business poverty relationship that is made by the PSD community and others and makes an attempt at applying such assumptions into the context of the Prawn and Vegetable value chains in Bangladesh. Four market development interventions conducted by Katalyst in the two value chains have been analyzed based on the current PSD assumptions, and are expected to contribute somewhat illustrative empirical evidence to the broader private sector led poverty reduction literature.

## 1.0 Background

In developing countries, the private sector (comprising of profit making business enterprises) provides more than 90% of jobs (Mundial 2004), and hence plays a major role in generating income. On average, the private sector in developing countries, both formal and informal, accounts for 65% to 75% of the Gross National Product (GNP) (World Bank 2005; 3). As the major contributor to economic growth and employment creation, the private sector has a central place in renewed efforts to reduce poverty and achieve the Millennium Development Goals (MDGs).

Emerging from this rational is the field of Private Sector Development (PSD). Based on the ultimate goal of allowing for developing countries to 'graduate' from foreign development aid, PSD aims to increase employment and incomes of the poor, thus laying the foundation for exit from charity (DCED 2012). As the Donor Committee for Enterprise Development (DCED) outlines, there is a broad range of approaches taken in PSD, which includes Value Chain Development (VCD), Business Environment Reform (BER), Green Growth (GG) etc. (ibid.)

## 1.1 Research Paper

### ***Statement of the Problem***

Despite growing consensus on the importance of the private sector in defeating poverty and spurring growth, there is a lack of evidence as to what hinders private enterprises in the developing world to contribute towards poverty alleviation (Brainard 2006). At the same time, faced with the failure of several development projects and relatively shrinking aid budgets, development practitioners seem to have assumed that businesses can do everything to alleviate poverty (Wilson and Wilson 2006). PSD initiatives are now broadly accepted as a bastion of achieving 'pro-poor economic growth' that are being achieved with donor and government support. At the same time, there are emerging concepts of Base of the Pyramid (BoP) and Corporate Social Responsibility (CSR) that explain how the private sector (Multinational Corporations (MNCs) in particular) can make business out of poverty. However, there is little evidence on how the private sector of developing countries like Bangladesh, characterized by a large pool of SMEs, and a comparatively smaller pool of large local corporations and a few MNCs, can contribute towards poverty reduction (income-poverty in particular), through its core business strategies. With increasing emphasis on sustainability of poverty reduction efforts, and graduation from aid dependency, it is critical to understand the necessary conditions that can enable the private sector of developing countries like Bangladesh to deliver such goals, in an independent and sustainable manner.

### ***Research Objective(s)***

Based on the problem stated above, the objective of this research is to identify the conditions which enable and/or hinder the private sector (with focus on the prawn and vegetable sectors) in Bangladesh to deliver pro-poor economic growth. The research does so by investigating the reasons behind the eventual success or failure of the lead firms involved in engaging the poor in their business strategy.

### ***Research Question***

What are the conditions that enable and/or hinder the private sector in Prawn and Vegetable sectors of Bangladesh to contribute towards increased incomes and jobs for the poor?

### ***Sub-Questions***

1. What are the factors that lead to business case for private sector engagement in increasing incomes and jobs for the poor?
2. What are the limiting factors that can deter private sector engagement in increasing incomes and jobs for the poor?
3. What is the role of the other actors in promoting business engagement in increasing jobs and incomes for the poor?

## **Research Methodology**

### **Data Collection method:**

**Interviews:** Key Informant Interviews was the key method of primary data collection for this study. This method proved to be the most apt given that the most amount of information regarding the interventions and the business strategies could be elicited from such key informants.

**Secondary literature:** In order to ensure that the information provided by the Key Informants in the interviews are valid and triangulated, secondary literature provided mainly by Swisscontact-Katalyst on the particular sectors and interventions was consulted. This literature includes sector strategy papers, impact assessment reports and intervention reports. Secondary literature from the academia was also consulted to aid in painting the contextual and theoretical framework for the study.

### **Sampling and Sample size:**

**Table 1: Sampling Matrix**

<b>Sector</b>		<b>Sample Size</b>
Private Sector	Private Sector Company	4
	Dealer/Retailer	4
	Associations	1
Donor	Swisscontact-Katalyst	4
Co-facilitator	Action For Enterprise	2
	Win Rock International	2
Public Sector	Government Agency	1

The sample consisted of targeted Key Informants, who were and are related to the interventions analyzed in the Prawn and Vegetable Sector. The sample included KIs from the private sector lead firms, Swisscontact-Katalyst and its co-facilitators, Business Association and Government Agencies. The rationale behind choosing these two sectors is that they allow for analysis of two different and dominant value chains where there is a high involvement of the poor, as producers and consumers. For instance a study by Catalyst (2011) states that there are 1.8 million farmers involved in the vegetable sector, 83% of who are under the poverty line. While the Vegetable sector comprises of a large number of small and medium scaled enterprises, the Prawn sector is comprised of an additional group of processing firms, and regulatory bodies. The former is formed of mainly national actors, while the latter is comprised of both local and international actors. Both sectors also have a high involvement of relatively poor actors.

## **1.2 Scopes and Limitations**

Due to time and resource shortages, this study faced a few limitations that shall be elaborated briefly here. Firstly, this paper acknowledges the need to assess any claims of pro-poor growth made by any entity, especially donor programs like Katalyst. However, it requires a huge period of time and expertise to make a comprehensive assessment of such claims, and it is beyond the scope of this paper to do so. Therefore, the impact assessment reports prepared by Katalyst itself were used that may well be questioned by many. This paper is based on not the actual poverty reducing impacts of the interventions of Katalyst, but aims at analyzing the basic rationale behind it. In doing so, this paper attempts to realize the level of expectation that can be made from the private sector in Bangladesh in contributing to poverty reducing goals of increased incomes and jobs for the poor. Another major limitation of the paper is that the business case for each of the private sector lead firms cannot be substantiated by actual sales data due to the reluctance of these companies to share such data. Continuation of market development interventions by the private sector firms involved beyond Katalyst support has been taken as a proxy indicator in this regard, along with anecdotal evidences.

## **1.3 Organization of the Paper**

The first chapter has provided a brief background into the research context, and objectives. Chapter 2 makes an attempt at outlining the major debates and assumptions centering on Private Sector Development (PSD) and private sector led poverty alleviation. Chapter 3 then gives the necessary contextual background on the Bangladesh economy, the dynamics of the prawn and vegetable sectors in the country, and finishes with details on the pro-poor interventions analyzed in this paper. Chapter 4 draws on the key debates and issues identified in Chapter 2, and analyzes the extent to which they are relevant and valid for the four interventions identified in the study. Finally, Chapter 5 makes the concluding remarks, attempting at answering the key research question of the study.

# Chapter 2 The Debates in PSD and Analytical Framework

This chapter attempts to elicit the key streams of theories that PSD is based upon, mainly to illustrate the basic assumptions and causal relationships that form its foundation. The chapter begins with outlining the basic rationale/business case for private sector engagement in poverty reduction, and then goes on to question this rationale based on the assumptions made. In doing so, it delves into the key debates of *to what extent the private sector in developing countries can be expected to contribute to poverty reducing goals of increased incomes and jobs for the poor*. This is elaborated further by laying down what specific factors theorists and authors have so far found that affect private sector's capacity to reduce poverty. Finally, it sheds light on the role that other players, including the government can play in making the private sector a champion of change.

## 2.0 The Business Case for Poverty Alleviation

### *The Basic Rationale*

The underlying assumption and argument for pushing the private sector to take up the role of poverty alleviator is that there is business in poverty alleviation-the mass of the poor (unique yet with fairly uniform features) and under-developed economic activity of the poor, offer the private sector opportunities for growth, innovation, and profit (Klein 2008). At the same time, through access to a larger number of employment opportunities, and access to products and services, the poor have an improved standard of living, thus creating a win-win situation (Klein and Hadjimichael 2003). The key pathway of materializing this scenario that has been highlighted is through job creation, as advocated by Niklaus Eggenberger-Argote (2005:4), in his paper 'Private Sector Development in the context of Poverty Reduction Strategy Papers'. In this paper, which is basically a concise literature review on private sector development itself, he alludes to the basic logic followed by proponents of PSD. He says,

A vibrant private sector is an essential prerequisite for triggering economic dynamism, enhancing productivity, transferring and diffusing new industrial technologies, maintaining competitiveness, contributing to entrepreneurship development and, ultimately, poverty reduction.

The statement more or less summarizes the rationale behind PSD, one that is shared by most of the donors and academics working in the field. For example, according to Asian Development Bank (ADB), a strong and dynamic private sector is critical to long term growth, which is a necessary condition for sustained poverty reduction (ADB, 2006) Job creation is the one of main goals of PSD, labour market policies have become a crucial point of intervention, with an aim of ensuring that labour market factors are enabling enough to create enough jobs to generate ample income and thus substantive poverty reduction. The PSD agenda has so far followed some key approaches. An understanding of the approaches at this point is useful in illustrating how the rationale materializes in the PSD agenda.

## **Key Approaches**

The literature outlines two major approaches to achieving sustainable poverty reduction outcomes out of profitable businesses- the Base of the Pyramid (BoP) approach, and the Market Development approach. Although different from each other, they are both based on the fundamental that the poor currently do not have access to the market, which undermines their capacity to come out of poverty, and ensuring this access can lead to profitable businesses and economic growth. BoP, a concept fiercely pushed by many is based on the argument that businesses can take advantage of new market opportunities by targeting the poor as consumers, serving the un-served by developing appropriate products at high volumes, at low margins per units, with a high return on capital employed (Prahalad and Hart 2002). The market development approach builds on this further by asserting that 'Nine out of ten people in the developing world earn their income in the private sector' (DCED, 2012) and hence ensuring improved functioning of these markets can contribute towards improved economic opportunities for the poor. However, what is disappointing is that albeit extensive literature available on the successes of the BoP and market based development approaches, there is hardly any mentioning of what these approaches mean for the domestic private enterprises in developing countries. The reason why this is important is that this goes on to show how the structure of the private sector in such countries is being overlooked by the literature. For example, as pointed out by London (2007), the BoP perspective eschews a top-down design based on overcoming weaknesses and "Westernizing" local business activities, thus overlooking the strengths and capacities of the existing domestic private sector. At the same time, it needs to be acknowledged that market based development and BoP is not new concepts, but Microfinance was already following these approaches under a different name. Unfortunately, the literature on PSD discusses the lack of access to finance as an access constraint of private enterprises (DCED 2012), but does not necessarily draw on the lessons of more than two decades of microfinance initiatives in developing countries including Bangladesh.

While BoP proponents argue for direct profits in including the poor as customers, and PSD includes them as producers (and potential entrepreneurs), Corporate Social Responsibility (CSR) proponents shed light on indirect benefits to a business engaged with the poor. Businesses engaged in social investment are believed to have a higher competitive advantage vis-à-vis other companies with less engagement by means of being favoured through subsidies and concessions (Frynas 2005) . Such companies are also said to benefit from maintaining a stable working environment, without the interruptions of any labour movement, and gain a more favourable perception from the community (ibid.). The aforementioned benefits to the enterprise make CSR a business tool as opposed to a development tool, with the former being a tool to merely appease public audiences while the latter is an attempt at engaging 'less visible audiences of poorer and marginalized groups in a manner which prioritizes qualitative issues of process'(Newell and Frynas 2007:667). In doing so, the issue then becomes to what extent development and business practitioners effectively manage the process of global capitalism for poor countries (Blowfield 2005). Having said so, the major criticism of this line of thinking is that the fundamental values of the capitalist enterprise which are 'the right to make a profit, the universal good of free trade, the freedom of capital, the supremacy

of private property, the commoditization of things including labour, the supremacy of markets in determining price and value, and the privileging of companies as citizens and moral entities' (Blowfield 2005:520) are almost completely overlooked, giving the image that businesses need to reorient themselves as a provider of social services and goods. Despite such extensive debate and literature on the win-win scenarios of blending business profits with poverty alleviation, businesses continue to perform poorly as social development actors (Newell and Fynas 2007).

Be it through BoP, Market Development or CSR, the basic rationale remains the same that businesses in developing countries are expected to see the quite 'obvious' growth opportunities amongst the poor, either through engaging them as consumers, or producers. A few cases are highlighted by proponents of such approaches as champions of change, which are somewhat expected to make the general case for an ideal private sector led development. However, such generalized claims of the possibility of a win-win relationship between the businesses and the poor needs to be questioned, given the heterogeneity of firms in developing countries, and the structural barriers to growth they face.

## **2.1 Questioning the Business Poverty Relationship**

### ***To what extent can growth be Pro-Poor? The Issue of Redistribution***

Pro-poor growth, the ultimate aim of PSD, is defined broadly as a growth rate that causes poverty to fall at a faster rate than it would have if the average income of all increased at the same level (Baulch and McCulloch 2000). Given that growth tends to be distribution neutral on average (Ravallion 2004) the effect of growth on the poor cannot be taken for granted. In order for pro-poor growth to materialize, the most important factor of growth is the extent to which it attacks inequality. Dollar and Kraay (2002:218) assert that 'average income of the poorest fifth of a country fall or rise at the same rate as the average incomes', and policies such as private property rights, fiscal discipline, macroeconomic stability, and openness to trade on average tends to increase the average incomes of the households, and hence also of the poor. However, it has also been proven, that given the current level of inequality, the income gains from economic growth will be higher for the rich than that of the poor (Ravallion 2001), leading to not a lessening of the gap between the rich and the poor, but maintaining or worsening it. Therefore, targeted pro-poor policies are required in order to ensure redistribution of the gains of economic growth to the poor (Eggenberger-Argote 2005) since growth is a necessary but not sufficient condition for poverty reduction (World Bank 1990; Lipton and Ravallion 1995; Squire 1993; McKay 1997; DFID 1997). PSD makes the above proposed targeted interventions that are aimed at improving private sector performance, given that a vibrant private sector is deemed to be a precondition for generating economic dynamism and competition, increasing productivity, allowing for diffusion of technology, contributing to entrepreneurship and

eventually poverty reduction (Eggenberger-Argote 2005). Overall, the private sector development agenda for poverty alleviation has its base on two assertions: employment for the poor will be created through effective markets, and such markets will also improve the basic infrastructure and social services (Klein and Hadjimichael 2003).

Such focus on private sector productivity seems justified given that in developing countries, the private sector provides more than 90% of jobs (Mundial 2004), and hence plays a major role in generating income. On average, the private sector in developing countries, both formal and informal, accounts for 65% to 75% of the Gross National Product (GNP) (Netherlands MoFA 2007). The private sector's role in achieving the Millennium Development Goals (MDGs) is also seen to be critical, given the experiences the sector has had, for example garment exports in Bangladesh information technology in Costa Rica and cut flowers in Kenya—all of which were new industries that created jobs, boosted incomes, and lifted standards of living through both the international and domestic private sector (UNDP 2004). As optimistic as the assertions by UNDP may seem, it is also true that not everyone has equal access to the jobs created through private sector growth. Osmani(2005) states that the three key determinants of the poverty reduction potential of employment are i) the growth rate, ii) the elasticity of labour market, and iii) the integrability factor. While the first two are quite obvious in how they relate to employment and the income generation, the lack of integration of the poor in the job market in developing countries is what creates a deeper divide between the rich and poor (ibid.) and is the root of income inequality (Edwards 1974).

If PSD interventions are not able to ensure a reduction in income inequality, the expectations of poverty reduction by the private sector growth can well be questioned. It also leads to the more seminal question of how PSD strategies are designed, and to what extent the distribution of gains from market development can in fact be enjoyed by the poor involved. The reason why this question arises is the assumption by many that the private sector's profit motive is in direct conflict with any poverty reducing goal, and that it is not the responsibility of this sector to play such a role in the first place. The following section elaborates on this debate to provide an alternative approach to this single objective function of profit that indirectly speaks for the PSD Agenda.

### ***Is Profit the only motive? Single Objective Function versus Value Maximization***

PSD has outlined a particular role of the private sector and hence businesses in poverty alleviation. PSD literature does not seem to question the capacity of private enterprises to deliver pro-poor growth. There are, however, authors and scholars who have problematised this assumption in details. Friedman (2007) asserts that those who believe that businesses should not be concerned only with profits but also promote social ends are 'preaching pure and unadulterated socialism' (Friedman 2007:173). According to him, it is undesirable for a corporate executive to meet any other need other than his/her stakeholders', which are quite obviously maximum profits. Friedman does not

necessarily imply that businesses cannot be expected to conform to the basic rules of the society, but stresses that it is the role of political mechanisms to ensure that social responsibilities are met. Delivering social goals can only make sense if it serves the profit making incentive of a corporation. Friedman (2007) also argues that a corporation can do so when it makes it easier to attract desirable employees, or reduce the wage bill or lessen losses from pilferage and sabotage. The 'top of the pyramid' (TOP) approach reconfirms such an ideology by stressing that profit making firms need to cater to an identifiable, measurable, substantial and accessible market segment, who are reachable by communications media and distributive alternatives (Pitta et al. 2008). This is precisely what makes it an immensely difficult task for private profit making enterprises to cater to the poor, given that such institutions are never able to drive costs low enough to reach a relatively inaccessible and complex segment such as the poor (ibid.). The Separation Thesis strengthens this argument further by indicating that 'there is a genuine difference matters of business and matters of ethics, at least insofar as there is a genuine difference between descriptive and normative matters' (Sandberg 2008:227). The thesis tends to indicate towards an absolute isolation of economic decision-making from moral implications in a free-market system (ibid.).

The above assertions are severely critiqued by those who realize that the potential of businesses to deliver poverty reduction goals of increasing jobs and incomes of the poor lies in the alternative theories of joining business values with ethics. Harris and Freeman (2008:5) argue that 'separating economic considerations and ethical considerations is impossible'. Such authors question the assumption that businesses follow a 'single-objective function', i.e. profit making objective, and owing to the theories of Stakeholder Theory and Value Maximization Theory, the question that arises is whether this presumed single objective function can be made multiple and what the objectives would be in such a case (Jensen 2005). The value maximization theory is interesting at this point due to its assertion that by assuming zero externalities and social costs, a firm increases social welfare at least by the amount of its profits. What is most relevant here is the argument that this value is maximized by ensuring that all constituencies(including the poor in developing countries) involved with a firm need to be benefitted if the firm has to enjoy long-term market value. Such theories provide reason to believe that private sector led poverty reduction may well be possible, especially in value chains where there is a high degree of involvement of poorer actors (as producers in particular).

### ***'Private Sector' in developing countries: Issue of heterogeneity and informality***

In order to ensure that the PSD agenda is met, it is necessary to fully comprehend the conditions under which the firms in developing countries operate, in order to better assess their capacity to contribute to poverty alleviation. PSD is rooted in treating the markets in developing countries as failed markets where an unfavourable investment climate, absence of regulatory frameworks, policies and strong institutions capable of preventing high concentration of monopolies and oligopolies, information asymmetries, credit rationing, lack of investible capital for the small and medium entrepreneurs etc.

stifle competitiveness and leads to incongruent distribution of benefits to the poor from employment generation. PSD interventions are supposed to create a 'market friendly' business environment, treated as an 'unchallenged vehicle for poverty alleviation' (Langan 2011:90) 'in a manner that enables entrepreneurs to function efficiently for social gain in the free market and advocates for closing the global competitiveness gap' (Langan 2011:92) through trade liberalization and globalization. PSD proposes to do so by designing 'business models that expand access to goods, services and livelihood opportunities for those at the base of the pyramid in commercially viable, scalable ways' (Jenkins et.al. 2011). The aim of creating such favourable business environment is to eventually allow for the firms in developing countries to enjoy the benefits of a globalized economy.

The irony remains in the fact that PSD discourse also tends to paint an egalitarian image of developing countries' participation in the globalized economy (OECD 2007) and tends to overlook the heterogeneity of firms operating in such contexts(Klein and Hadjimichael 2003). In reality, private enterprises in all environments are not able to participate in the globalized economy and generate jobs, investment and human capital in a manner that reduces poverty due to market failures and unfavourable investment climates (Eggenberger-Argote 2005). At the same time, there are informal 'rules of the game' in a society, especially in developing countries, which determine the institutional framework for the private sector and determine the redistributive capacity of private sector growth (Hasan et al. 2007). Thus it can be concluded that there are several intricate aspects of the environment that the businesses in developing countries operate that can restrict the PSD agenda somewhat. These aspects have the potential to reduce the effectiveness of the PSD interventions, and therefore can in no capacity be overlooked.

## **2.2 Limiting factors to Business engagement in poverty alleviation**

Having established that one cannot necessarily take the capacity of business enterprises operating in developing countries like Bangladesh to engage in pro-poor interventions, for granted, it is now necessary to elaborate the factors and conditions that may hinder them from doing so. This section has identified five such key factors: access to growth capital leading to stunted growth of firms; short term investments made versus the long term investments required to engage the poor; a lack of co-ordination and good governance within the value chains leading to poor market linkages; constraints to investments on research and development; and finally the extent to which business leaders deem poverty alleviation and pro-poor growth legitimate. An analysis of these factors leads to a more pertinent question as to given these limitations, whether it can be expected for the private sector alone to contribute to increased incomes and jobs for the poor. The section following assesses the role that the government and donors are expected to play in somewhat eliminating these limiting factors to set a more enabling stage for private sector led poverty reduction.

### ***Access to Growth-capital***

The primary constraint to investing in the poor is the fact that while a lot of poor people, especially in the agricultural sector do run enterprises of their own (Banerjee and Duflo 2007), they operate in an informal environment where it is not easy to turn assets into sources of capital (London et al. 2010). Furthermore, since the poor lack access to sources of growth-capital, specially financing, the businesses run by the poor remain small (UNDP 2004). Financial systems in developing countries are fragile, with a lack of regulatory, accounting and operating procedures that not only comply with international standards, but also allow for an inclusion of the poor (Growth 2006). Due to the sheer small and medium size of most firms operating in developing countries, that leads to them to lack access to information, technical skills, managerial competence and entrepreneurial skills, only a few of these firms manage to grow into larger units and enjoy from economies of scale(Altenburg and von Drachenfels 2006).

### ***'Short-Termism' Versus Long Term Investments***

'Short-termism' is one of the key constraints to long term investment made by Multi-National Corporations (MNCs) and large local firms. They prefer to make short term investments, spanning from a year to three years, that is a direct result of the preference of short-term valuation of shares opposed to long term ones, especially in contentious and unstable environments that developing countries possess(Fiestas et al. 2010) . This lack of investment in the poor (which needs to be long term) is also often governed by the reluctance of firms to appear to be 'social activist' or 'campaigning NGOs' that may raise eyebrows amongst company stakeholders (ibid.). Investing in improving a society is certainly a long term investment, which several companies, especially those that already struggle to grow in difficult business environments such as that of Bangladesh, cannot often afford, and is in direct conflict with their short term business goals-a concept known as Prisoner's Dilemma (Sayer 2005). Hence, what happens in reality is that the private sector companies that often do become involved in developmental activities, either through CSR, philanthropy or their core business, do it only as long as their business interests are tied to it, and do not usually bring about any meaningful development per say.

### ***Governance and Co-ordination in Agricultural Value Chains***

Governance issues have been highlighted quite extensively in the Global Value Chain (GVC) Analysis literature, where it sheds light upon the role of lead firms in ensuring the inclusion and/or exclusion of the poorer value chain actors (for example small and marginal farmers) in the value chain. According to Gibbon and Ponte(2005) lead firms can either drive GVCs in a hands on approach through vertical integration, engagement of the suppliers and retailers; or in an hands off approach whereby inclusion and/or exclusion are governed by codes and standards. The issue of governance in GVCs can be particularly interesting in terms of analyzing how the lead firms throughout the

pro-poor value chains drive the other, more disconnected and un-favoured actors in the chain in terms of allocation of resources and distribution of gains. Moreover the assertion that value chains can in fact exacerbate poverty for its actors if the 'normal functioning' of these chains is left unchecked (Ponte 2008)

It is due to the governance of lead firms in value chains that lead to the co-ordination failure, i.e. the lack of firms' ability to link with each other to gain access to services and technology that they themselves cannot produce (Altenburg and von Drachenfels 2006) . Examples of such assets would be non-financial service provision with regards to information, Research & Development (R&D), training, marketing and promotion etc. What is relevant at this point is the concept of co-ordination failure at the cluster levels, where the desired level of diffusion of innovation and best practices is hindered by distance, lack of access to information providers. Also, given that co-ordination failures keep firms from benefitting from investment by other firms through increased aggregate demands and economies of scale, the possibilities of lifting entire clusters and Value Chains in terms of productivity might not be possible without addressing this failure in a targeted manner (Schulpen and Gibbon 2002)

### ***Research and Development***

A failure in the market for R&D is seen to be a key cause for overall market failures. R&D and knowledge creation tend to be the last priority for a lot of firms operating in developing countries, including MNCs, due to the incomplete appropriability of returns on investment that eventually leads to higher social returns compared to private returns(Schulpen and Gibbon 2002) . Moreover, most MNCs and lead firms have been found to do little original research, especially in the agricultural sector due to results being non-proprietary(Goldsmith 1985), leaving the 'burden' of innovation to the state. However, the capacity of the private sector to engage in R&D and diffuse it is deemed to be most logical, since it already dominates the research landscape (Kiers et al. 2008). However, it is also debated that despite the private sector's capacity to invest in R&D that can address the critical needs of poor farmers (for example, in terms of producing locally appropriate seeds for poor farmers and hence reduce their reliance on imported seeds), most companies dominating the global agricultural markets shy away from doing so (ibid.). Even if such companies were to innovate and invest in R&D, the question remains whether the firms in developing countries have the capacity to absorb it given that they operate in markets prone to imperfections and widespread failures (OECD 2007). Therefore assuming that enterprises would and could adapt to innovations and access them at any given point in time may not be entirely free of false assumptions.

### ***Legitimacy of Owners/Proprietors***

With growing concern over business enterprises' role in poverty alleviation and social welfare, an increasing number of companies are making attempts at integrating sustainability concerns into the traditional models of profit maximization (Thomas and Lamm 2012). However, some theorists believe that this

requires innovations and new strategies, and the successful adoption of such strategies will depend on attitudes, support and cooperation of leaders and employees (ibid.). This brings us to the concept of Legitimacy of enterprise leaders and organizations, defined as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman 1995:574) . Pragmatic legitimacy is of particular interest to this paper, which Thomas and Lamm (2012) deem to be the key determinant that drives business leaders' decision on whether engaging the poor in the business would lead to reduced costs, enhanced reputation or improved brand image.

## **2.3 Can Private Sector alone do it? The need for additional actors in making PSD work**

Despite strong assertion that a win-win scenario is possible for businesses providing goods and services to the poor, authors argue that left alone, the private sector cannot be expected to deliver developmental pro-poor goals, and need some form of assistance from the state, NGOs and the donors (Brainard 2006). There is therefore acknowledgement of the role of other actors, i.e. the Government and NGOs in ensuring that this win-win scenario is indeed reached. As put forward by Brainard (2006), Governments are required to put the 'right' market friendly framework in place, so that the private sector's ability to spark growth and alleviate poverty can be markedly improved. The government's role is also key in ensuring effective financial intermediation, assigning property rights, enforcing contracts and fostering predictable policies and a sound macroeconomic environment (ibid.). Thus, despite the fact that PSD tries to 'correct' government and market failures, it recognizes the indispensability of the institution in ensuring a conducive business environment.

Public Private Partnership (PPP) is seen as a key means to leverage private sector resources and achieve developmental goals in cost-effective and sustainable ways (DCED 2012). Literature has elaborated quite a lot on the successes of PPP, and DCED argues that important benefits can be obtained by fostering more effective PPP, particularly in the selective provision of such services as energy and water. Energy production and basic water supply projects can use the most effective ownership structure necessary, including public ownership. But final delivery to the rural customer or to the informal sector can often be managed by smaller domestic companies. Decentralized power production, through distributed energy of various kinds, can also be contracted to the private sector through agreements with the public sector grid. Solar power and small run-of-the-river hydro plants are examples. Public-private partnerships are also effective in implementing sustainable development objectives. Donors, either directly, or indirectly through local Non-governmental Organizations (NGOs) play a critical role in advancing the role of private sector in development, and the inherent logic behind doing so is that 'ultimately, the purpose of development aid is the graduation from foreign assistance altogether, which is only possible where poor people earn a better living within their own economy, without the risk of depending on outsiders for continuous assistance' (DCED 2012). The UNDP is one of the key donors in the field of PSD.

UNDP's PSD Division encourages businesses to invest in ways that serve the poor, and its key initiatives are The Growing Inclusive Markets that creates information products that demonstrate how entrepreneurs can do business with the poor and combine profit with poverty reduction; the Growing Sustainable Business initiatives that assists with feasibility studies, and capacity building to promote public-private partnerships; the Global Compact and the Business Call to Action that ensures private sector compliance to international rules and regulations. Business environment reform is at the core of PSD at the United States Agency for International Development (USAID), which is also a major donor in the field. The agency conducts several bottom-up value chain interventions, implementing them through third parties that may be the private sector, public sector or the civil society. International Labour Organization (ILO) puts special emphasis on ensuring decent labour conditions for the poor employed in the private sector of developing regions, with special emphasis on job creation and, social and environmental considerations. On the other hand, the International Finance Corporation (IFC) of the World Bank (WB) has a more comprehensive approach whereby it tackles issues of business environment reforms, access to finance, promotion of SMEs in regards to access to markets, business skills and information, and the agency also involves in creating new opportunities through innovation (DCED 2012). All in all, the key approaches that the donor community takes to promoting PSD include business environment reform, Value Chain development (VCD), Business Development services (BDS), Making market work for the poor (M4P), Green Growth, Women's entrepreneurship development (WED), Local economic development (LED), Access to finance, and Public-Private Partnerships (PPP) in the area of business growth and poverty reduction.

DCED (2012) also provides literature on the evidences of impact of PSD initiatives so far. According to DCED there is yet no single particular formula for success of PSD initiatives, and acknowledges the need for tailoring strategies according to the context and opportunity offered by the region. DCED evaluations have revealed that there have been several cases where PSD initiatives have made little or no contribution towards raising incomes of the poor, or making them more active in the market. However, such statements are not followed by sound reasons that could be drawn on as lessons, and could act as useful information for this research for example. Also, the fact that each PSD program reports in different ways, and that there is yet to be a consolidated means of measuring results makes it difficult to compare and contrast interventions and eventually makes it almost impossible to draw any sort of trend analysis. Results are also mostly measured internally and Katalyst is the only market based development project that has been externally audited. This indicates a major gap in the literature about the effectiveness of PSD as a tool for poverty alleviation that raises serious questions regarding the future direction of such a concept and strategy.

## **2.4 Analytical Implication**

The literature allows us a critical insight into how the business poverty relationship is perceived. While some (Friedman 2007) believe that business en-

terprises should and do follow a single-objective function of profit making, theorists of the Value Maximization Theory (Jensen 2005) argue that such a goal cannot in fact be reached without ensuring maximized value for all stakeholders involved. This proposition seems viable for the value chains in Bangladesh, which have a high number of poor actively involved in the business chain, as retailers, producers and consumers. However, the heterogeneity and informality that defines the firms in developing countries cannot be overlooked if one is to elicit key factors that can allow for such value maximization to materialize. Generating from such an understanding are the different factors that either enable or hinder the capacity of private sector in developing countries to grow and hence increase opportunities for their poorer counterparts. Given that the business environment plays a crucial role in ensuring business growth in such countries, the role of the government and donors (given that donors often tend to fill in the responsibilities of the government itself) is pertinent to be accounted for. Based on this scenario, the analytical framework for this study has been designed, that is summarized in Figure 1.

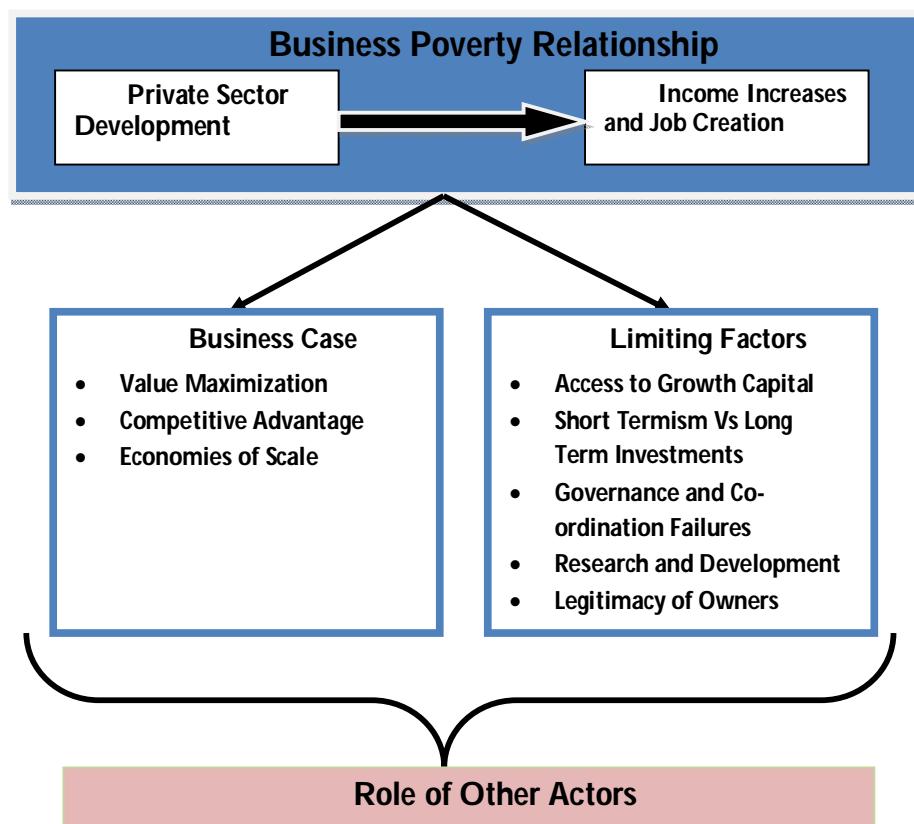


Figure 1: Analytical Framework

## **Chapter 3 Bangladesh Economy and Katalyst Interventions**

This paper has taken four market development interventions conducted by Katalyst, in the prawn and vegetable value chains of Bangladesh, to analyze the role of private sector in pro-poor growth. Two of the interventions have been deemed 'successful' by Katalyst in terms of reaching the poor with increased incomes and jobs, while two have been deemed 'failed' interventions. The paper does not however take such claims of success and failure for granted, but it is also not the in its scope to assess whether they were indeed so. This chapter has been written to present to the reader factual details regarding the interventions and the sectors, along with an overview of the Bangladeshi economy, the agricultural value chain in the country and the relevance of PSD in it.

### **3.0 Bangladesh Economy**

Bangladesh is a country of 150 million approximately (BBS 2011) people, occupying the lower portion of the Ganges, Brahmaputra, Delta and has an area of 143,988 square kilometres. Ethnically and lingually this is a homogenous country with 99 percent of the people belonging to the same ethnic group speaking the same language. The economy has grown at rate of 6.7% in 2011 and is projected to grow at 7% in 2012 (CPD 2012) despite political instability, poor infrastructure, corruption, insufficient power supplies, and slow implementation of economic reforms. Political instability remains a key constraint to growth and prosperity in Bangladesh, although it has not affected the economy as much as expected, for e.g. estimations of economic loss of strikes per day vary between 175 to 130 million dollar per striking day (DMFA 2012). The major items of exports are ready-made garments and clothing, jute goods, shrimps and frozen foods, raw jute and jute products, leather, newsprint, fertilizer etc. The major items of imports are machineries, crude petroleum and petroleum products, raw cotton yarn, fabrics, cement, edible oils, foods grains etc.

### **3.1 Agricultural Value Chains in Bangladesh**

Around 75% percent of Bangladesh's population lives in the rural areas, with 54 % of them employed in agriculture and the remainder in the rural non-farm (RNF) sector. The rural economy constitutes a significant component of the national GDP, with agriculture (including crops, livestock, fisheries and forestry) accounting for 21 % and the non-farm sector, which is also driven primarily by agriculture, for another 33% (Khasru et al. 2009). The share of agriculture in GDP is 21% in the last few years (BBS 2008). It is also the source of many of the small industrial sector's raw materials, such as jute, and accounts for 10% of the value of all exports. In short, agriculture is one of the driving forces behind economic growth in Bangladesh and, as a result, increas-

ing food and agriculture production have always been major concerns of Bangladeshi policy-makers.

The past 30 years has seen a significant increase in focus on food security in Bangladesh that has eventually led to a surge of investment on irrigation, technology dissemination and creation of a favourable policy environment.(Dorosh et al. 2004) Alongside, an increase of focus on high-value crops as opposed to traditional staples coupled with economic growth, increasing incomes and need for higher productivity, has presented enormous opportunities for food producers, sellers and processors (World Bank 2008). The effect of globalization, liberalization policies, growing global demand for food, rising cost structures in agriculture and fisheries in industrialized countries have resulted into export markets for countries like Bangladesh (Jaffee and Henson 2004). Such trends towards integration into the global markets have led to the rise of an increasingly competitive private sector in agriculture.

The private sector in agriculture in Bangladesh emerged mainly during the 1990s and has been demonstrating a steady rate of growth. A report prepared for The Agribusiness Development Project, run by the Ministry of Agriculture and the Asian Development Bank (AGRICO Ltd. 2004) concluded that co-ordination failures exist amongst the agribusiness stakeholders. The existing linkages have been found to be weak and lacking in trust. The relationships are also not seen to lead to increased value addition and innovation. This failure in coordination and linkage has led to inefficient and weak agricultural value chains, which is explained by factors such as lack of favourable policies, institutional constraints, lack of human resources and an underdeveloped infrastructure. The same report further identifies the policy factors as the lack of effort at coordinating various relevant government agencies, organizations and other stakeholders in agribusiness, leading to isolated development efforts. There is also a lack of institutional and infrastructural deficiencies that lead to inefficient flow of information, finance and technology in the sector.

### **3.2 Private Sector Development in Bangladesh**

The private sector is envisaged to play an increasingly active role alongside public sector development programs concentrating on basic infrastructure and human resource development. In recognition of the private sector's ability to contribute towards achievement of the goal of socio-economic improvement to its people and self-reliance for the nation, the government has recently implemented policy reforms to create a more open and competitive climate for both foreign and local investment.

In the context of Bangladesh, the Government is yet to publish a particular PSD policy. However, there are elements of PSD in the National Strategy for Accelerated Poverty Reduction (NSAPR) where it deems pro-poor economic growth as a driving agent for accelerated poverty reduction. Amongst several strategic areas identified, the ones that are relevant for PSD are: supportive macroeconomics and choice of critical sectors (DMFA 2012). The NSAPR puts particular focus on a supportive macroeconomic environment with 'improved regulatory environment, higher private investment and increased inflow of FDIs, effective trade and competition policies, and, poor and

gender sensitive budgetary process' (ibid.). The Local Consultative Group Bangladesh (LCG) has been recently organized with 39 bilateral donors, International Monetary Fund, The World Bank, Asian Development Bank and the UN, in order to act as a 'forum for information exchange, coordination and collaboration among donors and the Government of Bangladesh in the area of private sector development' (Local Consultative Group Bangladesh 2011). A Donor Mapping exercise concluded that the relative positioning of Bangladesh compared to other Asian countries has worsened despite an overall respectable improvement in private sector development in the country (GTZ and EJB 2006). The report also marks out that despite a huge number of donors working on PSD in the country- the major gap lies in low donor presence in key sectors significant for growth, for e.g. in construction, logistics, water engineering etc., that eventually may undermine the potential progress due to the high donor presence in implementing short term market development reforms with the private sector. However, another major constraint remains in the lack of capacity of the private sector in absorbing the information, technology and systemic change factors introduced by PSD projects. The donor mapping exercise revealed the need for increased efforts in policy, legal and regulatory revision and reform at the sub-national level, capacity and network building with private sector institutions for advocacy, and promoting public-private dialogue for a better business enabling environment. Katalyst, a market development project in Bangladesh is reported to be the only project that is implementing all of the above and hence is deemed (albeit self-proclaimed) as 'the most successful market development project in the World' (Katalyst 2012).

### **3.3 Katalyst's work in Pro-poor growth**

Katalyst is a multi donor funded project, funded by the Swiss Agency for Development and Cooperation, the UK Department for International Development, the Canadian International Development Agency and the Embassy of the Kingdom of the Netherlands. Katalyst is implemented under the Ministry of Commerce of the Government of the People's Republic of Bangladesh by Swisscontact and GTZ International Services. The project began its second phase in March 2008 (Katalyst 2012). It follows the Making Markets Work for Poor (M4P) approach, whereby it aims to make a significant contribution to increase in income and jobs for men and women in rural and urban areas by increasing competitiveness of 16 key rural and urban areas (Bekkers et al. 2008). These include vegetable, prawn, potato, maize, jute, furniture, fish, tourism, seed, fertilizer and information and communication technology. It is striving to reach 2.3 million people and small businesses by the end of its second phase in 2013. Katalyst selects its sectors based on the three-part market development lens: poverty reduction potential, pro-poor growth and access potential and systemic intervention potential (ibid.).

### 3.4 Background to selected cases

#### ***Case 1: Reaching Last Mile Farmers with good quality seeds***

*This is a case where a pro-poor intervention conducted by Catalyst with a private sector seed company was successful in terms of generating profits for the company and income increases for the poor farmers.*

One of the key constraints in the seed sector has been reaching the small and marginal farmers with good quality seeds. Most farmers (53% of who are considered poor) are still using poor quality retained seeds, due to lack of access to quality seeds, and lack of purchasing capacity. Studies show that by ensuring the use of hybrid seeds, these farmers can benefit from an increase in productivity by 15-20% (Faruque 2009). However, in order to allow for this to happen, these farmers need to be reached not only with good quality seeds, but also with information and know-how on cultivation techniques. One of the other major constraints in the sector is the lack of flow of information throughout the value chain, leading to the farmers mostly being ignorant of the source and benefits of good quality seeds, hence undermining not only their own productivity, but the competitiveness of the entire business (Katalyst 2011).

Katalyst partnered with Lal Teer Seeds Ltd. (a leading seed company in Bangladesh) in November 2011 with an aim of reaching small and marginal farmers with good quality seeds. The intervention included capacity building of value chain members such as dealers, retailers and mobile seed vendors (MSVs) on cultivation techniques, and the introduction of mini-seed packets to ensure affordability for the small and marginal farmers. Lal Teer Seeds Ltd. is a private limited company that aims to supply environmentally adaptable and good quality vegetable seeds, along with enhancing research and development in the sector in order to reduce dependency on imports. Its major product is vegetable seed, and currently boasts nationwide distribution. Farmers of all levels, i.e. large commercial farmers, smaller subsistence farmers and extremely poor farmers are mostly aware of Lal Teer Seeds and can rely on its product for a good yield.

Till date the intervention has reached 300,000 small and marginal farmers with mini-seed packets, and impact assessment report reveals that each of the farmers assessed experienced an increase in yield of up to 20 % (Katalyst 2012). This mass of farmers/clients is in addition to the larger and more able farmers who were previously purchasing Lal Teer seeds, meaning an increase in market size for the company. The company records show that the intervention was partially (25%) subsidized by Catalyst, while the major portion of financing and human resources were expended by the organization itself. The total cost of the intervention was BDT 800,000 (EURO 8000)(Mukit 2012, personal interview)<sup>1</sup>, and Lal Teer expects to reach the break-even point by the

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<sup>1</sup> Personal interview with Abdul Mukit, Head of Marketing, Lal Teer Seeds Ltd. on Catalyst interventions, at Lal Teer Office, Dhaka, 20 June 2012.

end of 2012, after which it expects to incur profits in 'many-folds' (Mukit, Head of Marketing, Lal Teer, 2012).

### **Case 2: Accessing high-price vegetable markets for safe food**

*This case has been considered a failed intervention in terms of reaching the targeted number of poor farmers with increased incomes and jobs.*

A growth in the vegetable sector is expected to help small and marginal farmers to sell more vegetables and raise their incomes. Around two thirds of small and marginal farmers (those with less than 2.5 acres of land) cultivate vegetables commercially and the others cultivate vegetables for domestic consumption (Katalyst)<sup>2</sup>. Improving market access and increasing productivity and profitability gives commercial vegetable farmers the opportunity to increase their current income from vegetables. Domestic vegetable farmers get the opportunity to begin production to open a new income stream. Benefits for producers accrue because vegetables are a higher value crop than rice.

Safe foods, commonly understood are those edible items that do not cause or bear any threat of any health hazards for the consumers. Food safety in food production may be achieved by natural or organic farming and even in agriculture by using chemicals with a recommended dose and practices with recommended inputs. With an aim of promoting safe food to consumers in the Dhaka city (capital of Bangladesh), Bangladesh Safe-agro Food Efforts Foundation (BSAFE) was founded. According to a study conducted by FAO and the Bangladesh Agricultural Research Institute (BARI) (Momin and Ali 2010), the major constraints in reaching out to the mass consumers with safe food were lack of awareness of farmers about available technologies, lack of sufficient number of technologies, lack of safe inputs, market demand and market channelling, government policy support and collective efforts by all stakeholders.

Katalyst had partnered with Safe Food (May 2010 till November 2010) with a view to catalyzing market linkages in a manner that these constraints are eliminated, through a more controlled and formal contract farming method. However, the sales of Safe Food in the city plummeted due to lack of ample market promotion. At the same time, the organization did not have the human resources and managerial capacity to ensure constant monitoring of field operations, leading to disconnect between the farmers and the organization. In addition, the lack of financing for the effort hindered BSAFE from acquiring its own transport and distribution agents, eventually causing a failure in terms of expanding the business. A few months into the intervention, a major constraint to making the business viable presented itself to be a lack of ample investment and resource capacity of BSAFE. Katalyst, as a market facilitator was unable to support the organization in these regards and thus discontinued its support. On the other hand, Katalyst has now partnered with a local organization named ECF in Magura (120 kms outside the city) under the same model, and is much more optimistic regarding the outcomes.

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<sup>2</sup>Based on the land area under vegetable cultivation and using an average farm size of 0.5 acres, the total number of commercial vegetable farmers is calculated at 1.8m.

### **Case 3: Reaching Prawn Farmers with good quality feed**

*This is a case where a feed company (input for prawn farming) successfully engaged its value chain actors in providing good quality feed that eventually increased productivity and profits for the company as well as poor prawn farmers.*

The freshwater prawn sector is growing at 4% per year (Katalyst 2008) with an estimated production of 35,530 MT creating an additional employment of 39,610 by the year 2014 (Katalyst 2009). Such growth is expected to reach small prawn farmers<sup>3</sup> given that there are approximately 120,000 prawn farmers (60,000 Hectare prawn farming area) in Bangladesh, about 50% of whom are classified as small (Fazle 2012<sup>4</sup>).

The potential pro-poor impact of the prawn sector has four dimensions. Firstly, in certain areas during certain periods of the year farmers have no alternative sources of income other than aquaculture. The climate only allows one cycle of rice a year. So, with a pond or a pond/gher<sup>5</sup>, during the rest of the year they can grow prawn as well as fish. They can also grow vegetables on the ponds/ghers embankments. Secondly, as prawn is a high value cash crop, small farmers can earn higher profits than from mixed carp or other agricultural crops. Thirdly, unlike brackish water species, freshwater prawn is more suitable for small ponds/ghers that are one acre or less, which means even farmers with a very small landholding can grow prawn<sup>6</sup>. Lastly, as prawn cultivation is relatively labor-intensive: it requires feeding, maintenance of the pond/gher and water quality control. This allows the poor to be involved as labourers.

Almost all freshwater prawn<sup>7</sup> farms in the country use supplemental feed in order to produce larger sized freshwater prawn due to the higher market prices that can be fetched. Rational use of supplemental feed use maximizes the economic return of a freshwater prawn farm without degrading water quality. The critical constraint in reaching prawn farmers with such supplemental feeds is that currently, most of the aquaculture feed companies in Bangladesh produce low cost feeds. The low cost feeds are originally formulated for other fishes (often loaded with carbohydrate or vegetative originated stuffs) but are unscrupulously branded as “freshwater prawn feeds”. Low cost and poor quality feed often deteriorates water quality and produce freshwater prawn with poor feed conversion rate<sup>8</sup>. As a consequence, the productivity of freshwater prawn is lower than optimum. At present, most of the freshwater prawn farmers are not aware of effects of quality freshwater prawn feeds in terms of feed conversion, production, efficiency, economic return and culture water pollution.

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<sup>3</sup> The definition of a small farmer is one with a land holding between 0.50 and 2.49 acres (BBS, 2005).

<sup>4</sup> Personal interview with Razik Fazle on Katalyst prawn interventions, at Katalyst, Dhaka, 24 July 2012.

<sup>5</sup> An artificially created pond by building embankments. They are filled by rainwater.

<sup>6</sup> Where *prawn* is used in this document it refers to freshwater prawn unless otherwise stated.

<sup>7</sup> Golda is a particular kind of prawn that is grown in freshwater farms.

<sup>8</sup> Feed conversion rate is referred to the number of live prawns that can be harvested in one season.

In this situation, freshwater prawn farmers' need access to information on quality freshwater prawn feed as well as other input requirements for high density commercial culture. Input dealers/retailers are the most immediate value chain actors related to these farmers and hence bear the potential of acting as a vehicle for disseminating technical information to the farmers. Unfortunately, the lack of knowledge does not lie with the farmers alone, but with the retailers as well. Feed/input selling companies are not found to be investing in training their value chain actors on their products, leading to not only an uncompetitive and stunted business, but also to a stunted prawn sector growth in general.

Katalyst and Spectra Hexa Feeds Ltd. partnered in order to ensure proper utilization of good quality supplemental prawn feed, by means of disseminating information and knowledge on feed and inputs. Spectra Hexa Feeds Ltd. produces fish and prawn feed under the brand name 'Mega Feed', and is a joint venture project between Thailand, Taiwan and Bangladesh (Spectra Group 2012). The objective was to ensure that a more informed mass of prawn farmers are created, leading to higher density prawn cultivation and eventually higher profits for both the feed producing company and the farmers. The intervention included training programs for the dealers and distributors of Spectra Hexa Feeds Ltd. along with farmer participation, mainly in the southern prawn growing belt of Bangladesh.

Katalyst and Spectra Hexa Feeds Ltd. assessment shows that the farmers who attended the trainings and eventually bought the good quality feed incurred a profit of 191.6%. At the same time, due to increased capacity to deliver quality feed and information to farmers, the dealers and retailers had improved businesses and some of them expanded their operations to nearby regions. Consequently the feed company had increased sales<sup>9</sup> and hence found such interventions worthy of continuation.

#### ***Case 4: Creating access of small prawn farmers to Processing plants for higher profits***

*This is a case where an attempt was made to create a direct link between prawn farmers and processing plants to ensure higher profits for the farmers. However, it failed due to the reasons outlined in the findings section.*

The prawn sector of Bangladesh is a highly controversial one, with massive amount of corruption and violence involved. The reason why it is so disputed, especially amongst human rights groups is that it generates huge profits for those who invest, and has a huge export potential. Currently, frozen food exports are third in terms of foreign earnings.

One of the major constraints for farmers in the prawn sector is that the existing middlemen in the sector take away the larger share of profits, and the farmers end up making very low profits. At the same time, due to the issue of traceability, especially since prawn is a major export product for Bangladesh, processing plants are also in a dilemma on how to ensure proper monitoring of

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<sup>9</sup> The company refused to reveal sales information, but confirmed that sales had increased significantly.

the farms where the prawn they procure from agents are cultivated. At present, processing plants have limited interaction with farmers. They rely entirely on agents (middlemen) for procurement and as asserted by Katalyst, these agents have special informal contracts with personnel at the processing plants, which make it easier for them to supply low graded products without being noticed by the management. Given all these constraints, Katalyst and Gemini Sea Food partnered in order to ensure that the processing plants can provide technical and informational assistance to the farmers and depot owners directly and hence ensure the quality and traceability of the product. This also could ensure higher profits for both parties, since the processing plants could pay less than they pay to the agents, and that would still be higher for the farmers at present.

The intervention included depot owner, dealer and farmer trainings conducted by Gemini Sea Food. The trainings were aimed at raising awareness amongst farmers on how to cultivate in a manner that the prawns can be exported. During the intervention, Gemini Sea Food had allegedly promised the farmers that if their product matches their requirements, the plant will buy their prawns directly from them. Unfortunately, when a depot owner did go directly to the plant to sell his products, the company (or rather the personnel who already have close linkages with the middlemen) refused to buy the products, and hence the entire purpose of the intervention failed.

### **3.5 Relevance of Context for the Study**

This chapter has aimed at providing a prelude to the following chapter where the findings of the study are presented and analyzed. The economic context of Bangladesh reveals that the business environment of the country is in fact adversely affected by political instability, lack of effective implementation of regulations, informal arrangements within actors, lack of co-ordination and cooperation between different actors (government agencies, private sector and non-governmental organizations) etc. Growth in agribusiness in particular is severely constricted due to such factors. Given how the agricultural sector employs a majority of the rural poor, who are also critical members of the agri-value chains, it is imperative that such limiting factors are dealt with in any PSD strategy and program. However, due to low sensitivity and lack of long term vision of both the government and the donors, there lies a gap in concerted and substantial efforts in creating the required enabling business environment for an improved functioning of the private sector in Bangladesh. Katalyst's work in the country for example is only in a few sectors, and as the four cases illustrate, its facilitating role in market development often fails in reaching the poor with increased incomes and jobs. However, its interventions have also been found to exhibit key relationships between the business enterprises and the poor that can be delved into further and made use of for more effective PSD interventions.

# Chapter 4 Findings and Analysis

This chapter presents the findings of the study in light of the debates and assumptions centered around PSD and private sector led poverty alleviation identified in Chapter 2. This paper has throughout acknowledged that an assessment of the pro-poor growth claim made by the four interventions conducted by Katalyst has not been made. However, this chapter begins with establishing the contentious issues that arise if one cannot take pro-poor growth claims of such donor led programs without a pinch of salt. Having made the disclaimer, this chapter highlights the key factors that presented a business case for the engagement of the poor in the value chains of two sectors. It is then followed by identifying the key constraints that the firms in these sectors are faced with for the same purpose. Finally, the chapter ends with a brief elaboration on the role that other actors, mainly the government can play in creating a more enabling business environment that may make it more possible for enterprises to contribute to the poverty reducing goals discussed in the paper.

## 4.0 A Disclaimer on Pro-poor growth

Although this paper is not about assessing to what extent the Katalyst run interventions in the prawn and vegetable sectors of Bangladesh have been pro-poor, it is important to shed light briefly on the evaluation methods of these programs. In doing so, this paper intends to clarify the existing loopholes in the claims of poverty reduction through market development, and hence establish that the paper does not necessarily treat any intervention a success or a failure based on the evaluation results made by Katalyst.

The PSD Monitoring and Evaluation follows the DCED Standard (DCED 2010) which has created a guideline for PSD programs like Katalyst on how to measure impacts, attribute and report on them in a more or less consolidated manner. Katalyst is the only market development project thus far that has been externally audited and has successfully 'passed' the DCED Audit 2011. However, as stated by DCED itself, there is not much information available on the results achieved due to two key reasons: very ambitious goals coupled with high costs of impact assessments; and it is difficult to attribute impacts to particular interventions (Tanburn 2008). DCED (2012) also acknowledges that each program including Katalyst tend to benefit a self-selecting sample, as opposed to a Randomized Control Trial (RCT) which makes it difficult to claim impacts on poor people involved generally in a sector. Till now the consensus is such that existing methodologies have not yet been successful at delivering solutions to the stated issues, and hence the impact assessment reports can at best be analyzed to see for systemic changes and not treated too seriously in terms of accuracy of attribution. Consequently the term 'impact' is now referred to the developmental results of outcomes such as job creation, income increases etc.

Another key issue in monitoring and evaluation of market development projects is that each project, including Katalyst has its own way of measuring

and reporting results, and by asserting a case as a 'success story' they tend to confirm the fact that these stories are not impartial (Tanburn 2008). The key criticisms of the method of measuring pro-poorness and impact of programmes like Katalyst have been clearly outlined by Jim Tanburn (2008), where he states that it is in fact difficult to establish whether incomes of a particular group of poor increased only due to the intervention. There are two reasons to this: in market systems where the poor are involved in not one but many capacities, and receive funds and assistance from a variety of bodies, it is not always possible to attribute an impact to one particular intervention; and people may also change the way they react to impact assessments either because they were involved in it and/or believe that giving positive feedbacks would renew funds. In Katalyst for example, the attribution is estimated for each set of activities individually, and it is on the staff discretion to 'claim' on the final impact figure, which already makes it quite subjective.

Finally, the issue of increases in productivity and yield leading to increases in incomes can be quite tricky as well. For example, in the case of small and marginal farmers accessing and using good quality seeds (or hybrid seeds) from Lal Teer Seeds Ltd., the increase in yield is taken on average to be 15-20% (Faruque 2009). However, Katalyst does not have the resources to verify this figure. At the same time, it is not necessary that all farmers were using their own retained seeds. Katalyst makes an assumption of the baseline yield of the seeds previously used, and adds on average 15-20% to calculate the final yield. Hence, the claims of increases in productivity and yields are not always accurate and may only be taken as an approximation.

## **4.1 Business Case for business engagement in poverty alleviation**

Two of the interventions conducted by Spectra Hexa Feeds Ltd. and Lal Teer Seeds Ltd., proved to be successful in terms of increasing business profits for the companies, along with increased business for the value chain actors, and increased incomes for the poor farmers (clients). This section analyzes these two cases in light of the arguments made for business engagement in poverty reduction in the literature, thus highlighting the business case for private sector led growth in the prawn and vegetable sectors of Bangladesh.

### ***Value Maximization over Single Objective Function***

While it is true that all businesses, excepting social businesses, do follow the single-objective function of profit making and should in fact do so (Friedman 2007), the findings show that firms engaged in agribusiness in Bangladesh possibly cannot ignore maximizing value for all its stakeholders, including the poor actors in their value chains. In all the four value chains analyzed, the poor are involved not only as clients (vegetable and prawn farmers) but also as retailers and dealers. Spectra Hexa Feeds Ltd. and Lal Teer Seeds Ltd. both acknowledge that '*without empowering the capacity of the poor in the value chain, the businesses themselves will not grow*'. Both of these lead firms ensured capacity building

of the retailers and farmers in their value chains on the cultivation techniques of quality seeds and quality prawn feed. As a result, the yield of the prawn farmers were seen to have increased by 30 kgs/acre with an additional income of BDT 12000 (EURO 12) per farmer, which is a net increase of 191.6% of profits per farmer (Katalyst 2010). The retailers benefitted from an improved relationship with their client farmers, leading to an increase in number of clients, eventually leading to a growth in business. Quite obviously, the demand for the prawn feed increased amongst the farmers, leading to an increase in company sales for Spectra Hexa Feeds Ltd.<sup>10</sup> A similar trend has been observed in the case of Lal Teer Seeds Ltd. By means of launching a new customized product (mini-seed packets) for the small and marginal farmers, the company reached an additional 300,000 farmers (clients) leading to an increased sales revenue of BDT 1.2 million (EURO 1200) in one fiscal year (Katalyst Impact Assessment Report, 2012). Lal Teer Seeds Ltd. also expanded its distribution network by incorporating and capacity building of (the previously ignored) 200 Mobile Seed Vendors (MSVs)

Pitta's (2008) assertion that the private sector in developing countries is unable to drive costs low enough to cater to the poor has in fact been disproved in the findings, given that both the companies had made significant investments in conducting training sessions and promotion of their products to the retailer and farmer level, even after Katalyst discontinued its financial and technical support. However, the constraint in delivering technical know-how to the value chain actors for these firms was not necessarily the investment required, but the doubts over the returns on such investments. The subsidy from Katalyst merely aided in convincing the firms that empowering the poorer stakeholders would mean improved business for the firms.

Companies in such agri-value chains therefore do not seem to have any other way but to empower its stakeholders, especially the retailers and the poor farmers, if they are expand with higher profits. Having said so, the claim cannot necessarily be made that all the actors are 'absolute' poor, but are relatively poor. That such value chains would go a further step in including the poor who are not in the market or value chain cannot necessarily be asserted.

### ***Competitive Advantage***

An interesting aspect of the interventions conducted by Lal Teer Seeds Ltd. and Spectra Hexa Feeds Ltd. in technology and information dissemination throughout the value chain is that there are spill-over effects in the market. For example, following Lal Teer's innovation in producing mini-seed packets for small and marginal vegetable farmers, several other local seed companies have emulated the strategy and are on their way of launching their own mini packets (Mukit 2012)<sup>11</sup>. As a matter of fact, Katalyst has been approached by some of these local seed companies for financial and technical support for this purpose

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<sup>10</sup> Spectra Hexa Feeds Ltd. was reluctant to provide sales data. However, the continuation of similar capacity building initiatives by the company beyond Katalyst support acts as a validation that the company had indeed profited from the intervention.

<sup>11</sup> Personal interview with Abdul Mukit , Head of Marketing, Lal Teer Seeds Ltd. on Katalyst Interventions, at Lal Teer Office, Dhaka, 20 June 2012.

(ibid.). Similarly, after having witnessed Lal Teer's success in incorporating MSVs in its value chain, several other firms are now also approaching local seed vendors to sell their products. The absorption capacity of the farmers and thus the demand for quality seed has also increased due to the massive scale of trainings provided by Lal Teer that can eventually be expected to make the seed sector more competitive.

One of the key reasons behind such input providers not investing on capacity building of value chain actors is infact this spill-over effect. However, both Lal Teer Seeds Ltd. and Spectra Hexa Feeds Ltd. are firms who aim to be market leaders, and deem improved perception amongst the farmers a key to business growth (Frynas 2005). According to the Ranjit Debat(2012), Marketing Manager of Spectra Hexa Feeds Ltd<sup>12</sup>,

*"While it is true that other market actors will now be able to take advantage of a knowledgeable base of input retailers and farmers, Spectra Hexa Feeds will nonetheless advantage from an improved perception of the company amongst the farmers."*

The reputation and the farmer perception of input providers such as seed companies and prawn feed companies are critical to business growth. A poor quality seed or feed can lead to a massive failure in production, and in such cases, the same farmer will shift to a product from a rival company quite easily. Hence, both Spectra Hexa Feeds Ltd. and Lal Teer Seeds Ltd. are confident that this improved perception and brand image in the minds of their clients (farmers) will lead to a long term growth in their business- a benefit that allows them to overlook the spill-overs in the market.

It is thus evident that reaching the poor farmers with information and technology, that empowers them as better consumers from the business perspective, and ensures higher productivity for themselves, makes business sense. These input sellers have a direct advantage in building the capacity of these farmers, and the advantages are big enough to cause them to overlook the positive spill-over effects that their interventions have on other businesses. Such a first-mover attitude coupled with the aim of creating a favourable perception amongst the farmers is what might motivate the private sector in developing countries to go the extra mile. The more real and tangible effect of such improved brand image and hence competitive advantage is established further with the economies of scale that it can earn the businesses.

### ***Economies of Scale***

Despite several criticisms of BoP approach and rationale, the findings of this study reveals that there is indeed some truth to the assertion made by Pralahad(2004) that businesses can take advantage of new market opportunities by targeting the poor as consumers, serving the un-served by developing appropriate products at high volumes, at low margins per units, with a high return on capital employed. For both Spectra Hexa Feeds Ltd. and Lal Teer Seeds Ltd. the business growth through the interventions was reached due to the 'number' of consumers reached. As mentioned earlier, initial investment on the promo-

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<sup>12</sup> Personal interview with Ranjit Debnath, Marketing Manager, Spectra Hexa Feeds Ltd. on Katalyst Interventions, at Spectra Hexa Feeds Ltd. Dhaka Office, Dhaka, 23 July 2012.

tion and training of value chain actors was indeed quite high, acting as a limiting factor for many firms to embark on such investments. For example, Lal Teer conceded that the total investment amounted to BDT 800,000 (EURO 800) of which 25% was subsidized by Katalyst. Lal Teer has sold each mini-seed packet at cost-price due to the lack of purchasing capacity of small farmers. However, due to the massive scale and effectiveness of the promotion, the intervention reached a considerable number of poor farmers in a year's time, leading to a profit of BDT 400,000 (EURO 400). Spectra Hexa Feeds Ltd. pointed out that such investments are not required to be made throughout the year, and hence if effective, such interventions have the ability to reach a massive base of farmers (clients) in a short period of time, and allow for economies of scale in the long run.

## **4.2 Limiting Factors for business engagement in poverty alleviation**

Value maximization theory has been proven valid in the study, along with posing economies of scale and competitive advantage as benefits of engaging with the poor for firms in developing countries like Bangladesh. However, two of the other cases, also of firms operating in the prawn and vegetable sectors in Bangladesh, illustrate the factors that can limit firms enjoying the above through engagement of the poor.

### ***Access to Growth Capital***

All four business enterprises studied for this paper conceded that access to growth capital can be a hindrance to even regular business operations, let alone engaging the poor. For instance, Lal Teer Seeds Ltd. alluded to the fact that it might not have been possible to launch the mini-seed packets given the relatively high financial investment required, had not Katalyst subsidized at least part of it. Lal Teer Seeds Ltd. indicated that their size is still not large enough to attract large financial firms as financiers. In fact, Lal Teer deems political clout necessary to access both donor and government funds. For example, Food and Agricultural Organization (FAO) procures seeds worth BDT 5 million (EURO 50,000 approx.) annually from various seed companies. Lal Teer had not been able to access such contracts due to its alliance to the opposition political party, and it was finally through pulling informal strings that it received part of the contract.

Bangladesh Safe Food Agro Efforts (BSAFE) initially had aims of promoting safe vegetables to the mass, by ensuring contract farming with vegetable farmers in the Northern vegetable growing regions of Bangladesh. However, the major constraint to materializing such a vision proved to be lack of access to finance, without which it was not able to provide contract farmers with the required credit. Vegetable farming through contract farming is usually deemed to be a means of ensuring large volumes of quality products for firms. BSAFE is also a new organization, and given that it can be defined as an SME,

it is denied access to necessary financing (World Bank Staff 1996:81). All of its financing is sourced from personal savings of the board of directors (Momin 2012)<sup>13</sup>. On the other hand, the issue of credit could have been solved if the value chain actors were not in need of credit themselves. However, as asserted by the Commission on the Private Sector and Development (2004), most of the retailers and farmers in the vegetable value chain lack access to sources of growth-capital, and hence rely heavily on lead firms such as BSAFE for credit. Financial institutions see small farmers as highly risky and charge high interest rates. Similarly microfinance institutions usually do not offer suitable financial products for small vegetable farmers (Katalyst 2012).

Given how finances pose as the key constraint not only to business enterprises, but also the relatively poor farmers and retailers engaged in such value chains, PSD programs, especially those like Katalyst need to be able to make bigger financial commitments to these actors. Even if direct financial assistance is not made, linkages between financiers and such 'co-lateral less' actors needs to be established, and microfinance is clearly not an answer to this. Be it the government, investment banks, or the donors, access to growth capital needs to be ensured if the private sector is expected to make any contribution to poverty reduction substantially.

### ***'Short-Termism' Versus Long Term Investments***

The effect on short-termism (Fiestas et al. 2010) seems to be a major constraint on the capacity of business enterprises to engage the poor within their value chains in the prawn and vegetable sectors of Bangladesh. Findings show that the Gemini Processing Plant preferred to make short term investments on procurement and product promotion as opposed to making long term investments on building capacity of its value chain actors, including poor farmers. The company limited its investment to its processing plant alone, despite legal requirements of investing on making their prawns traceable by means of training and monitoring its own farmer cluster. Due to such short-termism, the enterprise failed to generate ample opportunities for the farmers engaged in their value chains to produce higher yields and gain increased incomes. A distribution agent of Gemini Sea Food Mr. M.A.Hassan Panna (responsible for acquiring fresh prawns from the farmers and delivering to the processing plant) recognizes the need to make long term investments in prawn farming technology. He gave the example of bringing in 'adaptation' technology to prawn farming in Bangladesh, which is a technology that has allowed Vietnam and India excel in prawn exports while Bangladesh lags behind. The technology requires high investment in the beginning, in terms of setting up the infrastructure and also in terms of training the farmers on how to cultivate accordingly. According to him, '*The benefits of the technology are such that it yields 5 times the regular yield at present, and thus has the capacity to increase the production capacity manifolds. At the same time, such technology can make Bangladeshi prawn more export worthy, making frozen food possibly the highest foreign earnings earner after remittances.*' Interestingly enough, the agent confided that he has recently made a major investment of acquiring the adap-

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<sup>13</sup> Personal communication with M. Abdul Momin, Chief Operating Officer, Bangladesh Safe Agro-food Efforts Foundation on experience with Katalyst intervention, 1 August 2012.

tion technology, and has already trained a group of 200 prawn farmers in the Khulna (southern prawn growing region of Bangladesh) in the technology. According to Mr. Panna, such investments are not being made by the rest due to the lack of risk taking attitude and long term vision. Since prawn exports is a profitable business, most are satisfied with procuring from middlemen and exporting, and care less about the quality of the product, and the prawn farmers they work with.

Whether or not long term investments will be made in pushing such sectors out of the gridlock of traditional production mechanisms that they are stuck in depends to a great extent on how profitable such investments are made. The political and economic climate cannot remain volatile if business enterprises are expected to move out of the short-termism attitude.

### ***Governance Issues and Co-ordination failure***

Co-ordination, or rather the lack of it is evident throughout the vegetable and prawn value chains in Bangladesh. There is an apparent lack of co-ordination between the retailers and the farmers, the former not finding enough incentives to educate the farmers to be better able to use the inputs for higher yields and incomes. At the same time, prawn and seed input companies often do not maintain close co-ordination with these retailers, who are then as a result not able to provide much information or knowledge to the poor farmers (Katalyst, 2012). Government extension agencies responsible for disseminating knowledge and technology to poor farmers and retailers do not have any financial incentive of doing so either, leading to yet another co-ordination failure (*ibid.*). The prawn sector is heavily reliant on its export potential, which brings in issues of compliance to international standards and regulations. Despite such demands there remains a lack of knowledge of correct procedures, partly due to lack of skilled and knowledgeable personnel, but also because they often do not perceive the value of doing so (Katalyst, 2012). They have generally made reasonable profits without spending resources on compliance know-how. As a matter of fact, Katalyst interventions were all aimed at ensuring better co-ordination between value chain actors to ensure a more equitable distribution of gains.

Findings reveal a clear co-ordination failure between the prawn farmers and the processing plant, Gemini Sea Food despite belonging to the same value chain. Gemini Sea Food was also found to prefer to steer clear from building capacity of the prawn farmers and dealers due to the high monitoring and implementation costs. The company would rather rely on middle men for procurement of their produce, and have no transaction other than the mandatory financial transaction with these actors. This disconnect leads to farmers having to rely on distribution agents, who take advantage of this fracture in the value chain, and deprive the farmers of fair prices (Sultan 2012<sup>14</sup>). BSAFE was reluctant in engaging directly with contract farmers in training them on safe food cultivation, due to similar reasons. This keeps the small vegetable and prawn farmers from benefitting from access to more knowledge and higher

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<sup>14</sup> Personal interview with Md.Borhaniz Sultan on intervention with Gemini Sea Food, at WinRock International Dhaka Office, Dhaka, 15 July 2012.

yields, while ensuring that the distribution of gains from their produce is disproportionately higher for the processing plant and safe food retailer (Gibbon and Ponte 2005).

The entire proposition that due to the business linkage between the poor value chain actors and the lead firms is what can rationalize investments of the latter on the former is under threat if such co-ordination failures exist. Whether it is the job of the private sector, or other actors, such as governments and donors, to ensure that such failures are dealt with is the critical issue at hand. Catalyst's work in ensuring more effective co-ordination is commendable, but the extent to which such efforts are successful in ensuring a greater distribution of gains to the poor can be questioned due to the seeming lack of similar efforts by the government.

### ***Research and Development***

Lal Teer Seeds Ltd. is one of the leading seed companies in Bangladesh, and one of its major assets is deemed to be its Research & Development cell which is a result of the high level of prioritization of gaining independence in terms of product variety (Lal Teer Seeds Ltd. 2012). The company, unlike most other seed companies in Bangladesh, develops its own seed varieties, focusing on preserving indigenous inbred varieties that allows the company to charge comparatively lower prices (compared to the imported seeds that other companies sell) and also reduces dependency on foreign seed producers (Kiers 2008). Lal Teer was able to re-orient its production and packaging of vegetable seeds to the needs of small and marginal farmers and take the risk of marketing products to a relatively poor customer base, due to their confidence on the quality of their product and lack of accountability to any foreign producer. On the contrary, the lack of an R&D cell within Spectra Hexa Feeds Ltd. limits their capacity to not only cater to the specific demands of quality feed from the farmers, but also deters them from being able to meet the market demand. Spectra Hexa is a joint venture company that imports prawn feeds from a parent company in Thailand. Such relationships are often contentious and there is no guarantee that a particular amount of feed will be provided by the parent company each year, leading to an increase in business risk.

It can be asserted at this point that without R&D and innovation, the private sector in such value chains have no means of ensuring long term profits. It is both a matter of good business sense and attitude of business owners that can ensure that R&D is given the highest priority. Innovation is what might lead to less dependence on international companies, and this should also be enough reason for the government agencies to ensure that investments in this area are made at large.

### ***Legitimacy and Attitude of Owners/Proprietors***

Thomas's (2012) assertion that the extent to which innovative ideas and strategies will be formulated and adopted in a manner that the poor are engaged has indeed been confirmed in the study. Lal Teer Seeds Ltd. attributes a major portion of its success in reaching 300,000 small and marginal farmers with mini seed packets (of good quality seeds) to the vision and willingness of the company CEO. The total investment on producing, packaging and promoting the use of mini seed packets to small farmers, retailers and dealers

throughout their value chain was BDT 800,000 (8000 Euros approx.), of which Katalyst's support covered only 25%. Company projections also show that the break even will only be reached in the third year of operation (i.e. 2012). Despite the high initial cost and uncertainty of acceptability of the new product by the farmers, the CEO, Mr. Mahbub Anam's risk taking attitude eventually paid off in terms of building a favourable image of the company to the farmers, and benefitting them with access to quality seeds. Similarly, Spectra Hexa Feeds Ltd. concurred that due to the long term vision of its leader to gain confidence amongst the poor prawn retailers and farmers in the country, it invested heavily on training these value chain members on the use and benefits of good quality prawn feeds. As a result, Katalyst Impact Assessment reveals that poor farmers engaged in the intervention incurred an increase in yield by 191.6%, leading to a significant increase in demand for the Spectra feeds as well. Interestingly enough, pragmatic legitimacy (Thomas and Lamm 2012), proved to be the major constraint behind the failure of Katalyst in ensuring that the poor prawn farmers engaged in the value chain of Gemini Sea Food received a fair price. According to the Gemini, it is cumbersome and more costly to procure directly from these farmers, and easier to rely on middlemen (who enjoy the bulk of the profits), even though it is at the cost of relinquishing the scope to monitor the quality of their raw materials (prawns) and eventually long term business profits. Such a 'pragmatic legitimacy' of the processing plant owner clearly hinders from investments being made for the furthering of the sector and the actors involved in it.

### ***Informal 'Rules of the Game'***

The private sector in Bangladesh is fraught with 'informal' and hence often undocumented rules of the game. Such informalities would not be critical had they not affected the way businesses operate, especially in the agribusiness sector. The findings of this study reveal that such informalities in fact create an unfavourable business environment and hence hinders business growth. If we take the example of the seed sector, one of the major reasons farmers are deprived of access to good quality seeds is the presence of small local seed companies who sell adulterated seeds at very low prices (Katalyst 2010). The Seed Certification Agency (SCA) responsible for monitoring the quality of seeds marketed by all seed companies conceded that they do not have enough human resources in the field to ensure effective monitoring (*ibid.*). At the same time, they are often found to have 'informal ties' with such unscrupulous seed companies, leading to a mutually financially beneficial relationship that acts as a motivation for the SCA to often overlook such adulteration practices. Such practices act as a major deterrent to growth for companies like Lal Teer Seeds Ltd., who have to constantly monitor the distribution of their products to ensure that their seed packets are not being adulterated by local traders and companies (Mukit 2012<sup>15</sup>).

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<sup>15</sup> Personal interview with Abdul Mukit on benefits of Katalyst intervention, at Lal Teer Seeds Dhaka Office, Dhaka, 24 July 2012.

In the case of Gemini Sea Food, the intervention failed to create a commercially viable link between the prawn farmers and the processing plant owing to the informal but very strong relationship between the quality control supervisors in the processing plant and the distribution agents. The agents procure prawns from a variety of farmers, hence not being able to maintain consistency in quality of product. However, informal financial transactions (could also be called 'bribery') with the quality control supervisors in the processing plant ensures that this is completely overlooked. The processing plants thus buy prawns that are 'supposedly' checked for quality and are traceable, whereas the reality is the opposite. After the intervention, a local prawn farmer had directly approached Gemini Sea Food in order to establish a direct business link and earn higher profits. Gemini Sea Food was reported to have refused to accept his products (prawn) owing to poor quality. Interestingly enough, the same farmer was able to sell the same product to the same processing plant when he went through the regular distribution agent. This proved that unless the informal ties between the agent and the quality control supervisors in the processing plant is broken; farmers will not be able to have direct access to processing plants, and earn a higher income.

Informalities will possibly plague the sectors for as long as the regulating mechanisms are not effectively in place. Informalities do not rise without a need for it, and PSD programs need to not only be aware of such dynamics, but also actively deal with targeting the root cause for its need and nip it at its bud. Without such a targeted and aggressive approach informalities will continue to pose as a constant threat to business growth, and the most affected will not be the lead firms in question, but the poor, who have less political, social and economic clout.

### 4.3 The Role of the 'other' Actors

Given the existence of informal rules of game within the vegetable and prawn sector, there is indeed a big role for the Government to play in ensuring that the business environment is made more favourable for the enterprises operating in the sectors. For instance, the SCA needs to be made more effective in order to ensure that quality seeds reach the farmers, which can eventually provide an incentive for competitiveness amongst the private sector seed companies. The government also needs to ensure that the need for credit throughout the vegetable value chain is addressed, and that lack of access to finance is not the key constraint to inclusive growth. Government agencies responsible for dissemination of information and technology can no longer take a back seat, since it is them who at the end of the day have the most reach and access to the poor.

Prawn is an export item so it is obliged to comply with the standards set by importing countries such as the USA, EU countries and Japan. There is however a lack of knowledge amongst the farmers and even processing plants regarding the compliance standards and rules. The informal ties between value chain members also lead to a poor quality of prawns being processed, that can

lead to a loss of competitiveness in the global market. The Government agency, The Fish Inspection and Quality Control (FIQC) and the laboratory wing of Department of Fisheries (DoF) responsible for giving clearance to the products processed for exports in the processing plants like Gemini Sea Food, need to step up their efforts in ensuring that compliance standards are met.

All the four interventions that have been studied for this paper were donor-driven, implemented in partnership with the private sector firms, on a cost-sharing basis. However, the question then arises why these firms had not implemented similar activities that clearly lead to higher profits and business growth. According to the Marketing Manager of Spectra Hexa Feeds Ltd., "*...we simply did not have enough finances to invest on anything beyond regular business operations. Had Katalyst not aided financially and technically, we would still not be able to do the same*". This is also the case for Lal Teer Seeds Ltd. which however is already quite adept at sourcing donor funds. The Head of Marketing, Mr. Abdul Mukit conceded that, '*Even if Katalyst had not funded this project, we would have done it with funds from other donor agencies. Donor funds would be necessary not only for the financial assistance it provides but for the technical know-how they transfer in terms of market assessment and monitoring.*' Studies have shown that business enterprises are prepared to share costs with donors on integrating inclusive business models in their core strategy, but would not engage without such a partnership (Davis 2011). It is thus quite evident that the role of donors is still critical in ensuring that poverty reducing goals such as increasing incomes of the relatively poor farmers and retailers in the agricultural value chains. Donors are also necessary to be able to fill in the gap of technical and financial capacity of firms, and make space for investment on research and innovation (ibid.).

It can be summarized that business enterprises operating in an already unfavourable environment, with informal transactions hindering their regular operations, cannot be expected to push the poverty reduction agenda alone. The government has the responsibility of ensuring that these businesses can operate under well implemented rules and regulations, while the donors are required to fill in for the lack of technical and financial know-how.

## Chapter 5 Concluding Remarks

This paper researched the capacity of the private sector firms in the Prawn and Vegetable value chains of Bangladesh, to contribute towards the poverty reduction goals of increasing incomes and jobs for the poor. This capacity was assessed in light of the environment that the businesses operate, the growth constraints they face, the informal 'rules of the game' that exist in the value chains, the nature of investments made on research and innovation, governance and co-ordination structures within the several actors, the attitude of the business owners and finally the financial and technical assistance they receive from other actors such as the government and international donors. The study based its analysis on four particular interventions that were conducted in these two value chains by a market-development project in Bangladesh, known as Katalyst. In doing so, it elicited a set of factors that contribute towards a business case for private sector engagement of the poor, and highlighted the constraints for this to materialize. The current literature on private sector development tends to generalize the role of the private sector in development, by means of treating firms in developing countries as more or less a homogenous group. The rationales behind PSD are also contentious given the vast variations in the models and approaches proposed. This research provides illustrative, but not representative evidence on the degree of heterogeneity that exists within such value chains, and the arguments that can be made for and against private sector led development.

Although it was not in the scope of the study to assess the poverty reducing impact of the four interventions conducted by Katalyst, this study asserts that if PSD interventions are to ensure any poverty reduction impact, they need to be able cause a significant reduction in income inequality. Co-ordination failures have been found to adversely affect the gains enjoyed by the poor from such value chains, and this is an area that PSD interventions need to focus upon. Having said so, key arguments for business engagement in increasing incomes of the poor is established in the study via the three business benefits that the firms can incur through this process. Due to the nature of the agricultural value chains in Bangladesh, and the extensive involvement of the poor, it is proven that it is in fact in the business interest to empower them through improved technical and financial assistance. A more capable mass of farmers leads to increased demand for agricultural products and leads to a direct growth in business. Similarly, such interventions lead to improved brand image amongst the consumers, which gives these firms a competitive edge over other firms operating in the sector. Eventually, these firms are then able to reach a critical mass of consumers, albeit poor, that allows for economies of scale and thus reduces the costs of doing business with the poor.

However, there are six key constraints that have been identified in the study that can hinder this process of private sector led development. The key threat to growth is the access to finance for both the lead firms and the poorer value chain actors that needs to be urgently addressed by both the government and the donors. The existing co-ordination failure between the value chain actors also pose a threat to ensuring an equitable distribution of gains to the poor. The political and social climate lead to a short-term investment attitude of businesses engaged in agricultural value chains, which is in direct conflict

with the need for long term investments required to put in the necessary research and innovation practices. Finally, the study reveals that the key to engaging businesses in poverty reduction is the attitude of the business owners themselves, and the decision making criteria they follow. In the context of Bangladesh, which has so far been incapable of providing a sound business environment to foster growth, the government and donors still have a huge role to play. The government needs to be able to ensure proper implementation of rules and regulations while the donors need to facilitate the transfer of technical know-how to these value chains.

The readers need to be reminded that this paper did not assess the poverty reducing impact of the interventions analyzed. As a matter of fact, the paper has provided an indication of what can be the arguments for business engagement with the poor. Given these arguments, PSD programs and proponents can steer their strategies towards highlighting the business case towards the business leaders, and also work in collaboration with the government to ensure that the investment and growth constraints are effectively addressed. This paper also builds a foundation for further research of non-agricultural value chains, and assess to what extent the different categories of poor are benefited from such interventions.

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## Appendix 1: Profile and List of Key Informants (KIs)

Name of Interviewee	Background	Date Of Interview	Place of Interview
M.Mushtaque Amin	Chief Operating Officer, Gemini Sea Food	2 August 2012	Dhaka, Bangladesh
Md. Jalal Uddin	General Manager, National Sea Food Inds. Ltd.	27 August 2012	Khulna, Bangladesh
M.A.Hassan Panna	Managing Director, Pranti Aquaculture Ltd.	28 August 2012	Khulna, Bangladesh
Md.Borhaniz Sultan	Market Development Coordinator, Winrock International (implementing partner of Katalyst)	15 July 2012	Gulshan 1, Dhaka, Bangladesh
Fazle Razik	Principal Business Consultant, Katalyst	10 July 2012	Baridhara, Dhaka, Bangladesh
Ranjit Debat	Marketing Manager, Spectra Hexa Feeds Ltd.	23 July 2012	Gulshan 1, Dhaka, Bangladesh
Mir Ashfaq Hossain	Assistant Manager, Spectra Hexa Feeds Ltd.	23 July 2012	Gulshan 1, Dhaka, Bangladesh
Nayeem Kashem	Prawn Expert, Katalyst	10 July 2012	Baridhara, Dhaka, Bangladesh
M. Abdul Momin	Chief Operating Officer, Bangladesh Safe Agro-food Efforts Foundation	1 August 2012	Over phone
Sohel Zaman	Middleman/procurement agent	30 July 2012	Over phone
Mr. Shadhin Kumar	Proprietor, ECF	28 July 2012	Over phone
Md. Shariful Islam	Ex-principal Business Consultant, Katalyst	30 June 2012	Over skype
Tashfiq Ahsan	Senior Business Consultant, Katalyst	17 July 2012	Baridhara, Dhaka, Bangladesh
Mahbub Anam	Chief Operating Officer, Lal Teer Seeds Ltd.	24 July 2012	Kawran Bazar, Dhaka, Bangladesh
Abdul Mukit	Head of Marketing, Lal Teer Seeds Ltd.	24 July 2012	Kawran Bazar, Dhaka, Bangladesh

Seraj UI Islam	Intervention Manager, Action For Enterprise (implementing partner of Katalyst)	10 September 2012	Gulshan 1, Dhaka, Bangladesh
Mehjabin Ahmed	Seed Expert, Katalyst	15 September 2012	Baridhara, Dhaka, Bangladesh