It’s none of your business!
Or is it?

How business opportunities in developing countries
Are improved by civil society organisations
Foreword

The way out of poverty is economic growth. Not economic growth per se, but growth that is sustainable, and that offers socio-economic opportunities for all, including the most vulnerable people on this planet. This idea is central in the ‘New Agenda for Aid, Trade and Investment’, published by Lilianne Ploumen, Minister for Foreign Trade and Development Cooperation. It is an ambitious agenda, and one that is worthwhile.

Next to governments and the private sector, civil society is a key party in realising this ambition. Partnerships in which these different sectors complement each other have great potential in realising growth that is inclusive and sustainable. Many will agree on this in principle, but what do such partnerships look like?

I noticed that many people I spoke with felt the need for examples of what the role of civil society organisations (CSOs) in private sector development could be. The role of CSOs as watch dog, challenging companies to reduce negative impact and to contribute to inclusive growth, is an example well-known to many companies. However, from discussions with CSO partners I learnt that many other initiatives are also taking shape, in which CSOs find innovative approaches to pursue inclusive private sector development.

This brochure therefore illustrates the roles that CSOs can play in supporting the Dutch private sector to do fair and sustainable business in developing countries. I hope the examples in this brochure will inspire the private sector as much as they have inspired me to consider CSOs as valuable partners in business development, in lobby and advocacy activities, and as partners in social enterprises. It is an invitation to seek opportunities to work together to achieve a better future for all.

Finally, I would like to draw your attention to the digital platform www.ondernemeninontwikkelingslanden.nl. It is set up by representatives of Dutch small and medium-sized enterprises (SMEs) and CSOs, supported by Minister Ploumen, offering practical suggestions and contacts, and sharing experience and best practices.
We can make our activities successful and future-proof, by combining our determination, courage and creativity.

Lambert Grijns
Director of the Social Development Department
Ministry of Foreign Affairs
The Netherlands
Reader’s Guide

This brochure illustrates how civil society organisations (CSOs) fulfil a broker function, reaching and connecting various actors in the value chain. It starts off with ten key messages distilled from the subsequent chapters. Chapters 1 and 2 describe how CSOs use their engagement in developing countries to support international businesses in identifying new consumer markets and business opportunities. In chapters 3 and 4 the focus is on financial services and governance respectively, on the local, national and international level. Chapters 5 and 6 discuss how CSOs support international businesses and consumers to contribute to inclusive and sustainable development.

Key Messages

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Key Messages

1. CSOs are honest brokers between different actors in and around the value chain. They oil the chain that drives inclusive and sustainable growth.

2. CSOs identify entrepreneurs in developing countries and support them to professionalise and organise themselves. They unleash a local potential for other businesses and investors to work with and build on.

3. CSOs identify consumer markets in the largest but poorest socio-economic segment. They can connect supply and demand, even if these are worlds apart.

4. CSOs facilitate access to financial services for SMEs in developing countries. This fills the financing gap between microfinance and corporate banking, thus allowing growth of business without stagnation at the SME stage.

5. CSOs are watchdogs of governments, stimulating them to provide an enabling business climate. They are independent and can provide feedback on and exposure of governments’ policies and compliance.

6. CSOs support businesses in implementing corporate social responsibility policies. They also enhance transparency, which enables consumers and shareholders to identify front runners.

7. CSOs influence demand. They use their connections and communication skills to bring about behavioural change, to the benefit of inclusive and sustainable growth.
Introduction
Inclusive development is high on the Dutch agenda for international development cooperation. Everybody, including women, youth, and marginalised people, should have equal opportunities to participate in the realisation of economic growth.

The private sector can contribute greatly to inclusive development. If people living in developing countries are given access to crucial services and markets, they are more likely to benefit as consumers, producers, business owners, employees, distributors and innovators. Local and international companies investing in these countries are key players moreover, in setting the standards regarding for instance labour rights, gender equality, environmental sustainability, and the inclusion of people with disabilities.

All actors in the value chain have to make a joint effort to ensure that development is inclusive and sustainable. Civil Society Organisations (CSOs), who have connections to consumers, companies and government bodies both in the north and in the south, can be valuable partners in this process. This brochure sketches the various ways in which CSOs can contribute to and cooperate with businesses in the Netherlands and in partner countries. This way, they have the potential to contribute to inclusive and sustainable growth together.

> **CSOs are honest brokers between different actors in and around the value chain. They oil the chain that drives inclusive and sustainable growth.**
1

Supporting local entrepreneurship
Local entrepreneurs are the natural counterparts of international entrepreneurs. Strong local entrepreneurs are to the benefit of all. CSOs unleash untapped potential by supporting local entrepreneurs to overcome various hurdles, supporting them to become professional partners and suppliers to larger companies.

Making use of their roots and networks in civil society, CSOs can identify potential for entrepreneurship beyond conventional business cases, geographical areas and target groups. They tend to have particularly strong ties with smallholders and small to medium-sized producers, which are becoming increasingly important to bigger companies to secure their supplier base. Businesses can make use of this enormous economic potential, and CSOs are able to link them to these pro-active micro-entrepreneurs.

**BoP Innovation Centre and product transport**

Together with BoP Innovation Centre, Wageningen UR and local farmer cooperatives, Mueller SA has developed a small-scale, solar energy-based cold storage facility that is affordable for rural dairy communities in Ethiopia. In the past, rural dairy producers only had access to local markets, as the quality of fresh products could not be preserved long enough to transport them outside of local communities. The solar energy-based cold storage facility helps them to reach a broader market. Preserving the quality of their fresh products during storage and transport allows them to sell their goods to higher value market segments, including urban areas. This creates both new income opportunities for farmers and access to local quality products for retailers and processors.

For companies it is impossible to work with small producers and smallholders on an individual basis, and it is essential that companies’ suppliers are able to deliver goods and services of a quantity and quality that match demand. CSOs can help them meet these needs. They support smallholders to get organised in larger units and to get connected to the value chain, for example by introducing ICT into the operations of local businesses. With their local presence, they can monitor and support them intensively. This enhances chances of success, making it less risky for businesses to experi-
Supporting local entrepreneurship

ment with innovative business cases. Thus, CSOs bring different parties together to develop innovative approaches.

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CSOs moreover build the capacity of the local private sector (see example of SPARK and youth entrepreneurship). They do so for instance through developing technical and bookkeeping skills of small producers, entrepreneurs, and smallholders, through helping them to scale up their activities, offering information about international trade regulations, or by providing them with seed capital. CSOs can advise local entrepreneurs on issues such as strategic positioning, selecting partners, client management and contract development. Not only does this have a positive impact on these entrepreneurs, but on the whole chain. Unnecessary intermediaries can be eliminated and the whole chain becomes more competitive.

**SPARK and youth entrepreneurship**

SPARK works in post-conflict areas with local partner CSOs. Together, they identify ambitious and talented young entrepreneurs through educational institutions, business incubators and business plan competitions. These entrepreneurs are offered business support services, market information and access to finance. SPARK also builds the capacity of local CSOs that work on improving the business climate, by providing them with trainings in management skills, business support services, and lobby & advocacy skills.

Studies have shown that productivity benefits from ensuring gender equality in the workplace (see for instance World Economic Forum 2011, FAO). However, women in developing countries in particular often encounter difficulties in obtaining access to land rights, credit and decent working conditions. CSOs attach great importance to gender equality and have many years of experience in promoting women’s participation in economic development. They work systematically for fairer participation of women in the private sector by empowering female entrepreneurs and
propagating the message that gender equality in enterprises equals smart business.

In these ways, the private sector and CSOs together can help smallholders, small producers and entrepreneurs in developing countries to be integrated into modern value chains. CSOs facilitate the transition phase, after which smallholders can continue independently. By providing training, information, resources, connections, and business services, CSOs support them to develop into professional actors offering marketable products and services.
Identifying business opportunities in the Base of the Pyramid
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The Base of the Pyramid (BoP) is the largest and poorest socio-economic segment in society, comprising over 4 billion people worldwide earning less than US$2 a day. Despite the low income on individual basis, the BoP represents an economy worth US$15 trillion, and purchasing power of the BoP has increased in the past years. The people who are part of the BoP are economically active as consumers, producers, entrepreneurs and employees. The BoP therefore represents an enormous unlocked potential for companies and investors looking to explore new consumer markets.

**Cofely – GDF Suez and Rural Spark India**

Rural Spark India is an initiative of Dutch students who cooperate with Indian grassroots organizations and the international technical service provider Cofely – GDF Suez. The aim is to create access to clean, safe and sustainable energy among rural Indian communities. These communities were previously excluded from energy supply, and would be difficult to reach without the network of the Indian CSOs. In this cooperation, the CSOs have for instance identified local entrepreneurs who organise the energy distribution on the community level. Through the interaction between these CSOs, the Dutch students and the international technical service provider, innovative, out-of-the-box and bottom-up approaches have evolved into a business case. Cofely – GDF Suez expects that if they scale up the initiative, the profit they make from energy users (including the poorest consumers) will soon balance out the investment costs they made in the initial stage. Thus, the company expects the business case to be profitable both in social and in economic terms.

Products and services for the BoP must be affordable, accessible, relevant, and they must appeal to the target market. The creation and innovation of these products and services is complex. Companies can benefit from the knowledge about the BoP market that CSOs have, for instance on what consumers in the BoP need, how they can be reached, or which approaches may fit best in particular cultures. CSOs also identify reliable local entrepreneurs who can play key roles in developing, producing and marketing products and services for the BoP and connect them to larger businesses.
CSOs identify consumer markets in the largest but poorest socio-economic segment. They can connect supply and demand, even if these are worlds apart.

AMREF: practical solutions to health problems
AMREF Flying Doctors, in close partnership with a global healthcare company, developed the Personal Hygiene and Sanitation Education methodology (PHASE). PHASE is a hygiene promotion approach which teaches children to wash their hands and adopt other hygienic practices. While reducing the spread of infection and promoting good hygiene, sanitation and safe drinking water, the programme also creates demand for hygiene products. Furthermore, PHASE has increased school attendance by an average of approximately 15%. In this way, it improves local economic productivity and activity, as well as the health status of communities worldwide. In Kenya the PHASE programme has reached over 100,000 children (plus their siblings, parents and teachers) in more than 247 rural primary schools.
In some cases, demand and supply have to be generated simultaneously, to the benefit of both consumers and producers. CSOs can support that process as honest brokers. Take soap as an example. Diarrhoeal disease is still one of the major killers of children in developing countries. CSOs can raise awareness on the importance of hygiene. This might lead to behavioural change and a willingness to pay for soap, depending on the price. CSOs can work with companies to make sure that soap is available in small bars and at an affordable cost. Over time, with consumers seeing the benefits and becoming wealthier, the market will become even more profitable.
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Facilitating access to financial services
Accessible, efficient and stable financial systems are a fundamental requirement for private sector development. CSOs work with financial institutions to improve access to financial services for entrepreneurs, small producers and small and medium enterprises (SMEs). International business partners benefit, as it means that their local counterparts become more professional partners and can make the necessary investments (for example in seeds that will grow into produce which is in demand in Europe). In turn, ensuring SMEs a return on their investment by linking them firmly to buyers will help SMEs secure a loan. CSOs can be an honest broker in this process.

**ICCO & Dutch small and medium enterprises**

Dutch SMEs interested in connecting to small-scale producer organisations and other enterprises in Africa may find it hard to access these groups. ICCO has experience in supporting the development of local SMEs and is well-positioned to link them to the Dutch private sector and facilitate cooperation. As local SMEs develop and reach the point where they need more financial support for investment and working capital, ICCO has a range of guarantees and loans available to support the growth of their businesses. It uses criteria linked to social performance, including gender equality and environmental impact, to optimise the impact of this support. ICCO has a strong local presence through its regional offices and a wide network of partner organisations. Being close to local SMEs and producer organisations is essential to helping companies develop and to providing a framework for risk management strategies. In this way, ICCO prepares the ground for other investors to support and scale up inclusive businesses in developing countries.

Looking at the distribution in emerging markets and poor countries, you see that there are a lot of very small companies, a few very large companies, and nobody in the middle. Yet we know that that middle is what carries the economy: SMEs create employment and strengthen the middle class, and are reliable partners to international companies. This is called the Missing Middle.
Facilitating access to financial services

> CSOs facilitate access to financial services for SMEs in developing countries. This fills the financing gap between microfinance and corporate banking, thus allowing growth of business without stagnation at the SME stage.

**Hivos’ Green Entrepreneurship Programme**
Through its Green Entrepreneurship Programme, Hivos supports SMEs, and organises small-scale producers in rural areas using a microfinance style model. These producers are key agents in addressing poverty, climate change and food security issues in rural areas. In microfinance, a combination of seed capital grants and technical assistance is provided to build up emerging microfinance institutions (MFIs), which are not yet attractive clients for the capital market. Once an MFI has grown strong enough and has managed to reduce its risks, it can access funds from the Hivos-Triodos Fund or similar funds until it can eventually be financed by the capital market. By providing seed capital and technical assistance, Hivos helps create effective demand for commercial financing, as it reduces the risks and cost for the capital market. In the same way, seed capital and technical assistance enable producer organisations and SMEs with small-scale producers as suppliers to become interesting clients for the larger private sector.

Though SMEs are of importance to national and international companies and investors, the capital market tends to be unwilling to invest in the incubation phase of SMEs in developing countries, as the costs and risks are relatively high. Small-scale entrepreneurs often lack financial track records and can offer little or no collateral. Moreover, next to financial support, many SMEs also need capacity building for their business initiatives to be bankable. CSOs reduce the costs and risks for investors of investing in SMEs in developing countries.

Firstly, they do so by providing financial institutions and other investors with information. With their local presence and experiences, CSOs are well-situated to estimate and manage the risks of investing in SMEs. They moreover pursue more transparent chains. Secondly, they develop the capacity of the SMEs and offer up-close, long-term assistance to help SMEs
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become successful. Guarantees provided by CSOs can leverage funding from commercial and social investors, making initiatives bankable for the capital market on the long term.

Thirdly, CSOs support financial institutions to take more risks and invest in diverse and non-conventional entrepreneurs and initiatives. They create programmes to demonstrate the profit potential of socially responsible investments, and share the risk in innovative approaches. CSOs’ experience with bottom-up methods and with using ICT to monitor and connect people may enable investors to get closer to and invest more securely in initiatives in remote, rural or non-conventional areas.
Promoting an enabling business climate
A flourishing private sector requires an enabling business climate that attracts investors, encourages innovation and entrepreneurship, welcomes trade, and promotes the security and well-being of both businesses and their employees. The availability and accessibility of physical security and of business services also play a crucial role, as do physical and social infrastructure. CSOs support companies that want to explore markets in developing countries, by stimulating relevant actors to prepare the grounds and create an enabling environment for trade and investment.

This environment is shaped by government policy, the legal and regulatory framework, trade policies, governance and institutions. Thus, next to the private sector, governments at different levels are important actors in stimulating an enabling business environment. Many CSOs, international CSOs in particular, act as watchdogs monitoring the compliance of governments and businesses with international standards on human rights and trade regulations. They encourage governments to ensure greater regional economic cooperation, to fairly distribute taxes and promote inclusion, to enhance public control and ownership of public goods, and to tackle inefficiency and corruption. CSOs do not only monitor these governance practices, but also make them visible and understandable to the general public through the mass media.

The reputation, experience and legitimate role of CSOs as representatives of civil society—including entrepreneurs—grant them access to international governance forums and enable them to raise and discuss topics related to inclusiveness and sustainability. CSOs thereby exert pressure on local, national and international governments and businesses to change repressive or unaccommodating responses in relation to human rights, land rights, natural resources, international trade and investment, and other issues.

> CSOs are watchdogs of governments, stimulating them to provide an enabling business climate. They are independent and can provide feedback on and exposure of governments’ policies and compliance.

CSOs do not only place pressure, but also support governments to pursue their common interest in helping domestic actors thrive in an enabling business environment. With their roots in society, CSOs can provide
Promoting an enabling business climate

governments with information on the needs of small enterprises, on how legislation affects people’s daily lives; and the impact of business operations on social issues. Many CSOs act as knowledge and research institutes moreover, and conduct studies to generate evidence-based information, advice on implementation strategies, and help governments create models that sustain on the long-term.

Both ENDS’ work on EPAs

For over ten years, the EU has been negotiating free trade agreements, called Economic Partnership Agreements (EPAs), with African, Caribbean and Pacific countries. These agreements may have benefits for the private sector in the EU, but can also do harm to the southern markets. Both ENDS, in its role as watchdog CSO, has functioned as a lobbyist and facilitator among different actors, to ensure all voices are heard in the negotiations. It supports accountability among governments and companies. The organisation cooperates with partners in the African, Caribbean and Pacific countries to influence the formulation of the EPAs and to include development-related policy in the agreements.
Lastly, CSOs fulfil the role of honest broker in bringing various stakeholders together. They help shape and strengthen local entrepreneurial networks and enable them to raise their concerns at the national and global level. Some CSOs may also form coalitions with other stakeholders with shared interests, like larger enterprises, working together to force changes in legislation on issues like tax law, land rights, trade and investment treaties, MFIs, and cooperative law and natural resources.
Promoting and supporting corporate social responsibility
Under the banner of corporate social responsibility (CSR), businesses have become important players in supporting private sector development in developing countries. While promising, CSR does not automatically have a positive impact on development, nor does it guarantee that growth of the business will trickle down. CSOs encourage and help businesses to pay greater attention – beyond their own economic interests – to their social and environmental impact.

CSOs monitor the extent to which the private sector’s commercial interests coincide with the interests of inclusive and sustainable development. Partially, they do so through more provocative strategies, for instance through publicly naming and shaming companies that deliberately lag behind—large international enterprises in particular. This way, CSOs help those companies who are frontrunners in CSR to have a competitive advantage over the laggards.

IUCN’s Leaders for Nature Programme
In 2000, IUCN started a dialogue with Dutch businesses to jointly map the effect of the Dutch economy on worldwide ecology. In cooperation with the corporate sustainability departments of the businesses, IUCN is raising awareness of the importance of sustainable practices among all layers of the companies’ employees. They are provided with training on biodiversity and ecosystems that are strongly related to the companies’ core businesses. Through this approach, IUCN helps companies develop multiannual activity plans to make their organisations sustainable.

> CSOs support businesses in implementing corporate social responsibility policies. They also enhance transparency, which enables consumers and shareholders to identify front runners.

Next to exerting public pressure on businesses to change, CSOs also offer companies support in implementing these changes. CSOs can help businesses contribute to inclusive and sustainable private sector development themselves and become pioneers in terms of CSR. With their knowledge of the local context, CSOs are able to assess the potential human
rights impact and other developmental effects of business operations. They can help integrate social issues into the broader risk-management systems of enterprises, lowering the likelihood of a company facing reputational, financial, political or legal damage. In this context, CSOs are especially well-placed to track the impact on individuals that are the most vulnerable.

**Eneco & WWF partnering for sustainable energy**

As part of its Climate Saver programme, the Dutch branch of WWF and energy company Eneco have joined forces to strengthen public support for sustainable energy supplies. WWF’s many years of experience in protecting nature against external threats and decreasing ecological footprints, in combination with Eneco’s expertise in the field of sustainable energy, have enabled Eneco to be the first energy producer to achieve WWF Climate Saver status. Living up to WWF standards for sustainability and CO2 reduction offers Eneco environmental, financial and social benefits. Eneco staff members are more committed to the company because of its cooperation with a benevolent organisation like WWF. Moreover, the company has strengthened its market position as a sustainability pioneer.

CSOs help companies strengthen their capacity by sharing their expertise on how to include women, young people and marginalised groups in fair and safe ways, and on how to limit ecological footprints or human rights risks. They can pass on information regarding working conditions in different links in the chain; share experiences with participatory approaches to include the interests of local partners, employers or consumers; or give advice on mainstreaming gender equality or sustainability in a business plan.

An immense potential for companies exists in developing and upcoming countries, which today are the fastest growing economies in the world. To create a reliable and committed base of employers, suppliers and consumers on the long term, some companies have already started to broaden up and diversify their relations in developing countries.

Many companies moreover have realised that sooner rather than later, they should become less dependent on increasingly scarce natural resources and find sustainable ways of doing business. In the ways described in this chapter, CSOs can support companies to not just live up to CSR standards,
but to incorporate social and environmental issues throughout the full width of their activities. By listening to and cooperating with CSOs, companies can develop themselves to become resilient and future proof enterprises.
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Creating consumer awareness
For companies that want to move towards more inclusive and sustainable business models, it is important that this also matches the demand of their consumers. If consumers and businesses are heading in the same direction, they can strengthen each other’s capacity to contribute to more social and environmental justice in the chains. CSOs encourage a shared sense of responsibility to pursue this justice among both parties.

Many consumers are already aware that their purchase has an impact on the chain, but may find it difficult to decide which products and services to buy and which not. Shortcomings of ‘fair’ or ‘sustainable’ labels, and even abuse of these labels, are regularly reported in the media. For consumers who want to contribute to more just chains, it can be difficult to differentiate ‘green-washing’ practices from sincere attempts of companies to make their products and services more sustainable. Other consumers may not be aware yet of the impact of their consumption on for instance the lives of the people that produce them. CSOs help pioneering companies to reach both groups.

> **CSOs influence demand. They use their connections and communication skills to bring about behavioural change, to the benefit of inclusive and sustainable growth.**

CSOs generally enjoy public trust and support for their activities, enabling them to reach, raise the awareness of and mobilise a wide audience. They can use this to provide consumers with insight in how their choice in the supermarket can have impact at the other side of the world, and with information on which products are created in sustainable and fair ways. Together with the private sector, CSOs develop certificates such as fair trade or UTZ certification and develop marketing strategies for certified products. Through monitoring and research, they warrant the quality of the certificates.

Thus, CSOs help the companies that pioneer in the development of inclusive and sustainable business plans to get the credit they deserve. In that way, CSOs and companies strengthen a consumer base for fair and sustainable products together.
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