



The Private Sector and Development for the Poor:
Principles for Success and Roles for CARE as an NGO

Submission to the United Nations Commission on The Private Sector and Development

by A. John Watson
President and CEO
CARE Canada

Ottawa, Canada
December, 2003

INTRODUCTION

Since 1946, CARE Canada has worked to provide basic services and emergency aid to some of the poorest of the world's poor. On the development side, the agency has focused on improving health, nutrition and education standards in developing countries. Through years of field-tested practice, we have come to believe that international aid and development efforts often work best when they forge links between the world's vast army of impoverished entrepreneurs and the established private-sector market system.

Moreover, CARE has found that these development programs work best when they are supported by private sector interests, which also appreciate the considerable business and development benefits that can occur by tapping into the under-serviced market the poor represent.

The entrepreneurs CARE works with are among the poorest in the world. They are not people western governments and

businesses tend to see as functioning capitalists. Yet over the years CARE has discovered they share a capitalist bent normally associated with the heartiest captains of industry in the developed world. Their entrepreneurial skills and instincts have been honed by the precarious nature of their lives, and they are applied with a vigor rarely seen in the prosperous West.

The poor have built huge portions of some of the world's largest cities and have established robust commercial enterprises in the slums and shantytowns they inhabit. They produce an astonishing range of goods and services with the most basic tools, materials and technologies. They epitomize capitalist verve.

They know how to work. What they don't have is a way to make markets work for them. CARE Canada is working to change that by building bridges between the poor and the private sector. The agency is guided by three principles.

PRINCIPLES FOR SUCCESS

(1) OWNERSHIP BY THE POOR



Small business ownership by the poor is a cornerstone for building a strong economy. Though large private sector projects—building a \$200-million dam in one developing country, or a \$100-million bridge in another—improve a country’s infrastructure for future business, they alone have very little impact on the poor aside from the wages they might earn during construction. Similar amounts spent providing repayable credit to micro entrepreneurs looking to expand or buy into an enterprise can have an enormous long-term impact, providing individuals and families with income to spend on health care, home improvements and education for their children.



(2) LEGITIMIZATION



The bulk of business conducted by the poor takes place in black and grey markets that operate below the regulatory radar. Bringing small businesses under a legal umbrella reduces the risk of exploitation and illicit land grabs while enhancing prospects for growth. Bringing extra-legal businesses into legal status implies structuring the regulatory environment to reflect existing practices in the informal market and stripping red tape out of existing government regulations.

3) FINDING EXISTING OPPORTUNITIES

CARE recognizes the value of international advocacy efforts to lower trade barriers and reduce Third World debt. But it also knows there are existing trade and business opportunities in developing countries that can be put to immediate advantage by and for the poor.

ROLES FOR CARE CANADA

CARE Canada sees itself playing a number of roles as an NGO working to foster private sector development. Here are six of them, with specific examples showing how they work:

(1) BUILDING BRIDGES

CARE recognizes the entrepreneurial capacity of the poor. It also appreciates the difficulty small entrepreneurs have making connections with the private operators and institutions they need in order to establish themselves.



CARE responded to this in post-war Bosnia by establishing its first Quick Impact Facility (QIF), a war-ravaged building housing private-sector specialists that show business people how to register for credit and training programs and write business plans. In return, the entrepreneurs agree to hire workers that reflect the ethnic make-up of the country before the war. The program has provided an impetus for businesses as diverse as bakeries and chicken farms to door and window factories.

(2) EXTENDING MARKETS

CARE's long experience in the developing world has given it insights into supply and demand problems that have bedeviled small farmers and entrepreneurs. To resolve these problems and secure access to markets otherwise denied the poor, CARE has worked to tailor its projects to local needs.



In Zimbabwe, where subsistence farmers scattered through the countryside struggled to survive for want of seeds, tools and fertilizer, CARE approached some 200 rural stores and asked them to sell these essential inputs on consignment. Then it told three large companies that CARE would guarantee payment for one crop season if they would fill the seed, tool and fertilizer orders of the 200 stores. Once the crops were in and they had been paid, the rural stores paid the companies and were able to establish credit with them. The program—essentially one of aggregating demand for inputs—has been one of CARE's most successful.

(2) EXTENDING MARKETS (CONT...)



In Kenya, CARE introduced a program that aggregated the supply of produce grown by subsistence farmers by combining the acre or two of land each of them owned in a way that helps them compete with existing commercial farms by growing export-quality crops.

Under the program, CARE helped arrange credit to finance irrigation systems for the combined farms. And it covered the first three months wages for a professional farm manager, who taught modern farming practices and saw to it that the crops the farmers grew met export standards.

Farmers that barely fed themselves now export three truckloads of chilies, eggplant and baby corn to Europe each week. And they are using the money these exports bring in to send their kids to school, expand their holdings and improve their houses.

(3) SERVING THE POOR, PROFITABLY

In an insightful article for the Harvard Business Review, authors C.K. Prahalad and Allen Hammond say big business could not only make money, but ‘radically improve’ the lives of billions by the simple, self-interested act of entering and investing in the world’s poorest markets.

The study says businesses gain three advantages when they serve the four billion people at the bottom of the economic pyramid who earn under \$2,000 a year--new sources of revenue growth, greater efficiency and access to innovation. It suggests large companies help, rather than exploit, the poor when they offer small micro loans at rates as high as, say, 20 per cent when the going rate in the informal economy may run as high as 1000 per cent per annum.



CARE Canada shares these views, and has been acting to encourage corporate investment in micro enterprises with vehicles like its Credit for the Informal Sector Project (CRISP) in Zimbabwe. CRISP has been working with the Commercial Bank of Zimbabwe to provide small loans to medium-sized businesses that would normally be denied credit because they were considered too high risk.

The five-year program has helped show banks that they can profitably lend money to businesses like these, many of them run by women.

(4) PROMOTING CORPORATE SOCIAL RESPONSIBILITY

Working with companies has convinced CARE that international businesses want to be socially responsible, and they want to be recognized for it.



This has become clearly evident in Honduras, where CARE had been working to improve production among a group of poor coffee growers. Sensing a growing interest among coffee drinkers in the people who grow and harvest the beans, CARE offered the A. L. Van Houtte Coffee Co. a chance to buy high quality, competitively priced coffee in a deal that would greatly benefit growers. Van Houtte agreed to buy their entire crop for several years.

With that agreement in hand, CARE brought in partners along the business chain that cut out various 'coyote' middlemen and saw to it that growers got an even greater share.

Then CARE asked Van Houtte whether it would care to use CARE's name and logo as a way of adding value to its product. Van Houtte agreed to pay CARE an annual licensing fee, the proceeds of which are used to raise social standards in the coffee-growing community.

(5) IDENTIFYING UNDER-USED CAPACITY

A number of companies have under-used capacity that could be put to productive use by the poor.



For nearly 15 years, CARE has operated a Tools for Development project that encourages companies in Canada to provide tools and equipment they no longer use to poor entrepreneurs in Jamaica, Ecuador and Peru. CARE picks up and delivers the equipment and puts in the hands of entrepreneurs, who buy it with low-interest credit arranged through micro-business credit institutions. Proceeds are used to cover shipping and other costs.

Companies have contributed everything from welders and saws to industrial sewing machines and forklift trucks. They receive a tax break for the gear they donate.

The country's national newspaper, The Globe and Mail, provides free advertising for the program, which CARE uses to explain how the project helps small entrepreneurs make a living for themselves and their families, which contributing companies made the world a better place to live.

(6) BUILDING PRIVATE SECTOR INSTITUTIONS FOR THE POOR

Over the years, CARE has found that small enterprises thrive when they have regular access to credit. To this end, the agency has worked to establish private sector financial institutions geared specifically to micro industry.



This has been particularly effective in Peru, where CARE had a long record of running small credit funds that were used by family and other businesses to finance their small urban enterprises. To make the system more efficient, CARE opted to roll all its micro project work into a new institution called Edyficar, a formal micro credit bank set up under Peruvian government regulations. The equity for Edyficar is held by a limited partnership investment fund called MICROVEST, established by CARE and MEDA. MICROVEST is mobilizing capital for investments in micro credit banks like Edyficar around the world.



For more information on CARE Canada as a partner for the Private Sector in development, please contact:

Dr. A John Watson
President and CEO
CARE Canada
1.613.228.5603
ajohn@care.ca

Or to learn more about CARE Canada, please visit:

www.care.ca