



Inclusive Business

Seminar for Innovations Against Poverty

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What is Inclusive Business?

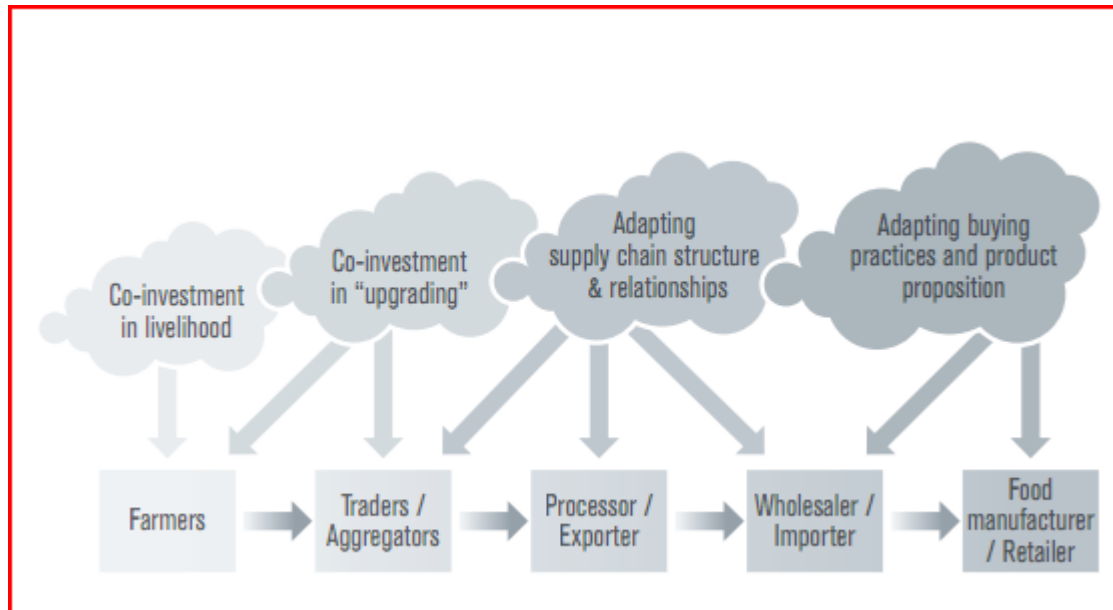
- The term **‘inclusive business’** refers to profitable core business activity that also tangibly expands opportunities for the poor and disadvantaged in developing countries. Such business models can engage the poor as employees, suppliers, distributors, consumers and/or innovators (Briefing Note #1, BIF & IAP)
- NGOs, business, institutions and government can form partnerships to deliver business models – they ‘deserve support’
- There are millions, billions of people without access to products or markets
- Target – often Base of Pyramid *consumers* or *producers*
- For broader context see www.m4phub.org, Finmark, www.businessinnovationfacility.org (BIF/IAP)
- Porter – **‘Creating Shared Value’** - premised on idea that commercial and social health are mutually beneficial

Aims of Inclusion

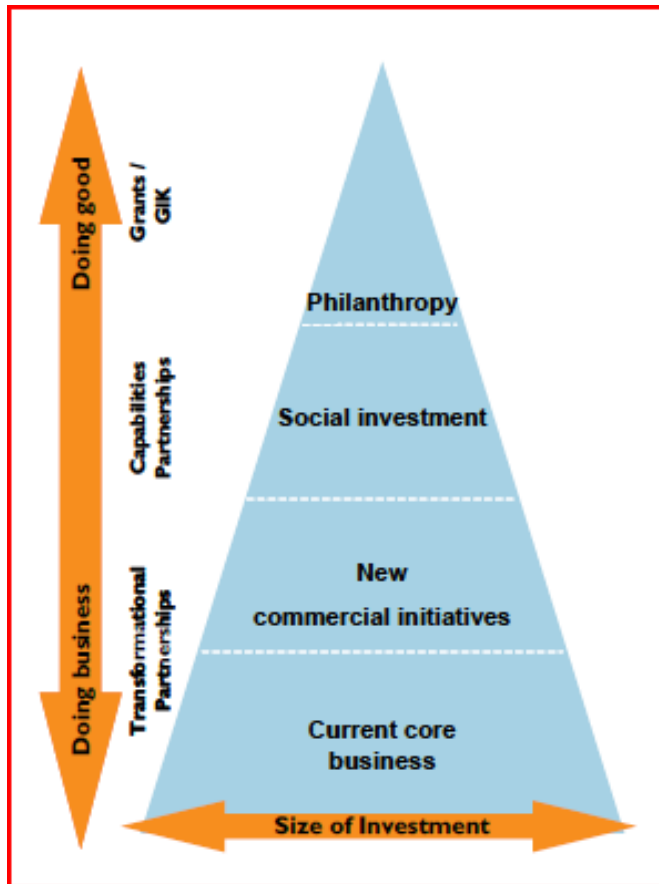
- Access to markets for **producers**, e.g. smallholder farmers, manufacturers – usually income generation or income security (but could be ease of production / efficiency gains)
- Access to products for **consumers** e.g. energy, water, medicines, food, telecoms, education, farm inputs – a variety of benefits. See <http://businessinnovationfacility.org/profiles/blogs/editor-s-choice-september-investing-in-clean-energy-for-the-base>: BoP market in India of \$2.1bn for clean energy (also MEGA, i-Connect & m-Krishi projects)
- Supporting adaptation to **climate or environmental change** (e.g. Fuel-efficient stoves)
- Often focus on women – but can be difficult to capture impact in a household

Inclusive Business: Similar Themes

- IB links overlaps with many concepts in Value Chain Analysis and other familiar techniques we use. Other similar concepts / terms are **M4P (Making Markets Work for the Poor)** which takes a higher level (market rather than firm level) view, and **B4D (IAP term for Business for Development)**
- http://www.value-chains.org/dyn/bds/docs/806/IIED_ValueChainsEffectiveToolsforPro-PoorDevelop.pdf
- There is a spectrum here ranging across fairtrade, social enterprise, market development, inclusive business, and some forms of corporate social responsibility, all with *subtle distinctions / different values* but interpreting the same challenges.



World Vision Cross Sector Partnering Strategy for Engaging the Private Sector, 2008



... but also consider ...

- Risk – increased risk the closer a project is to your core business. With risk comes innovation - first mover advantage
- Is your philanthropy harnessing your business skills? Eventually blurring between Creating Shared Value (CSV) and Corporate Social Responsibility (CSR)

A Selection of Inclusion Models

Liberal / pro business

Interventionist / non-business

CSR: basic, non-core business interaction for philanthropic or strategic aims. Combined with 'normal' business

Inclusive business partnerships: wholly core business, very close to current work and business ideology. Recognises the value of business methods and seeks to catalyse for development goals

Social Enterprise: assets locked into the community. Benefits of production back to stakeholder or even simply the community

Fair trade systems: combines core business with non-core producer and supplier relationships (e.g. Regulated premiums, minimum pricing, possibly high compliance)

Government brokered contract farming, Chinese model. Rigid price setting. Very big potential impact across Africa!

Tax and Spend / Quasi-Private Parastatals

Accountability: Corporate and Market Governance – adversarial / watchdog roles

Examples


Usual suspect: M-Pesa

- always quoted, the ultimate inclusive business success. Vodafone investment was match funded by the *Financial Deepening Challenge Fund (DFID)* approx. £1m or 46% of investment

<http://www.mit.edu/~tavneet/M-PESA.pdf>

Home > Projects > Africa Projects > Vodafone UK/Global - M-Pesa (Mobile Money)

Vodafone UK/Global - M-Pesa (Mobile Money): Kenya and Tanzania



Project Start Date: December 2003
Funding: FDCF £910,000 (48%); Vodafone £990,000 (52%)

What is it?

Vodafone has developed a mobile phone based solution for transferring money in geographically remote areas of Kenya and Tanzania that lie beyond the reach of fixed line telecommunications.

- Allowing access to financial services in remote areas without traditional telecommunications
- Providing opportunities for financial institutions to extend their activities into new areas
- Encouraging co-operation between micro-finance institutions, banks and mobile network operators
- Providing customers with a quick and easy method of accessing funds using mobile phones and airtime dealer networks in place of bank cards and ATMs

Who benefits?

- Customers of micro-finance institutions in remote rural areas benefit directly from the access to financial services and products without costly and time-consuming travel. These customers are often entrepreneurs, existing small businesses or farmers. Access to financial services is improving the general level of productivity for all members of the community
- Financial institutions benefit by extending their services to customers they could not reach using conventional marketing techniques
- Co-operation between different commercial sectors in the development of this project is helping break down barriers to micro-finance institutions in East Africa

Afri-Nut: Improving productivity and farmer's income

Company	Region (Country)	Industry Sector	Poor people mainly benefit as...
Afri-Nut	Malawi	Agribusiness (Peanuts)	Producers

Key objective(s) Establishing Afri-Nut as an inclusive pro-poor peanut processing business

- Key challenges/questions**
- New start up business based on a blend of commercial and social investors
 - How to pay farmers more while remaining competitive with consumers
 - How to establish direct and reliable relationships with farmers
 - How to achieve quality levels required for export into international markets

Afri-Nut

- new business joint venture between NASFAM, Twin Trading, CORDAID and Ex Agris Africa
- Inclusive groundnut supply chain

Learning from Afri-Nut

Results

- Successful negotiated outcome (brokered by Challenges Worldwide) – successful fusion of NGO, business, farming association and ethical trading company – storage, buying, processing, selling Malawi peanuts
- NGO know-how with the poor matched with business DNA
- Benefits – people want secure income or more income? Benefits to women (members, farmers?) How long before people benefit?

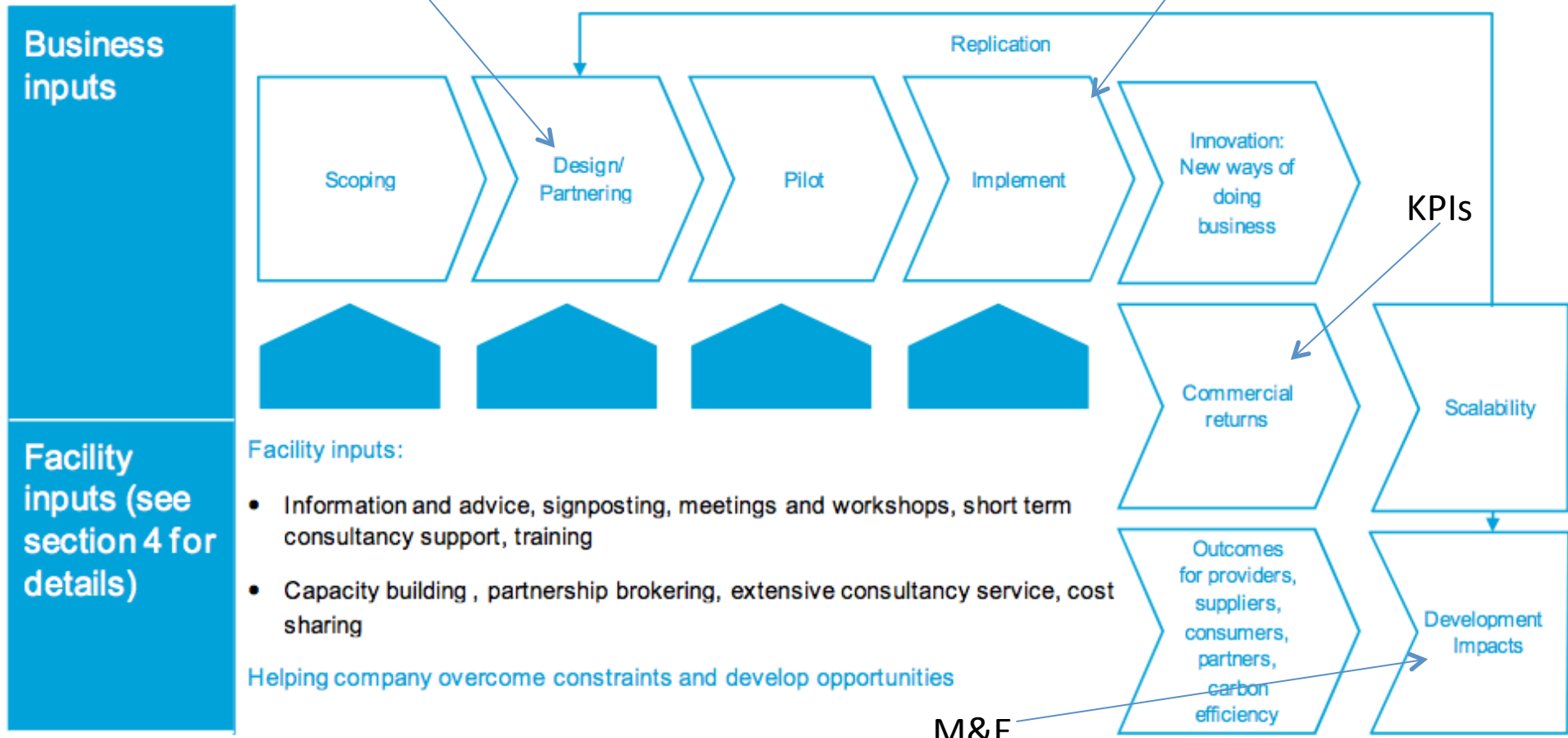
Questions

- It is scalable, but is it as replicable to other similar industries as we thought? Or do we need a cultural shift in outlook?
- Should an NGO or charity engage with this type of project?
- Who is lying awake at night worrying about this project? Entrepreneurship is desirable
- What is the counterfactual? Baseline only partially adequate
- Partnership – do you need to share *values* to share value? Adversarial vs collaborative relationships

Afri-Nut's Journey with BIF

Concept design
(pipeline
development),
investment plan

Project
management
(under CS
project), HR

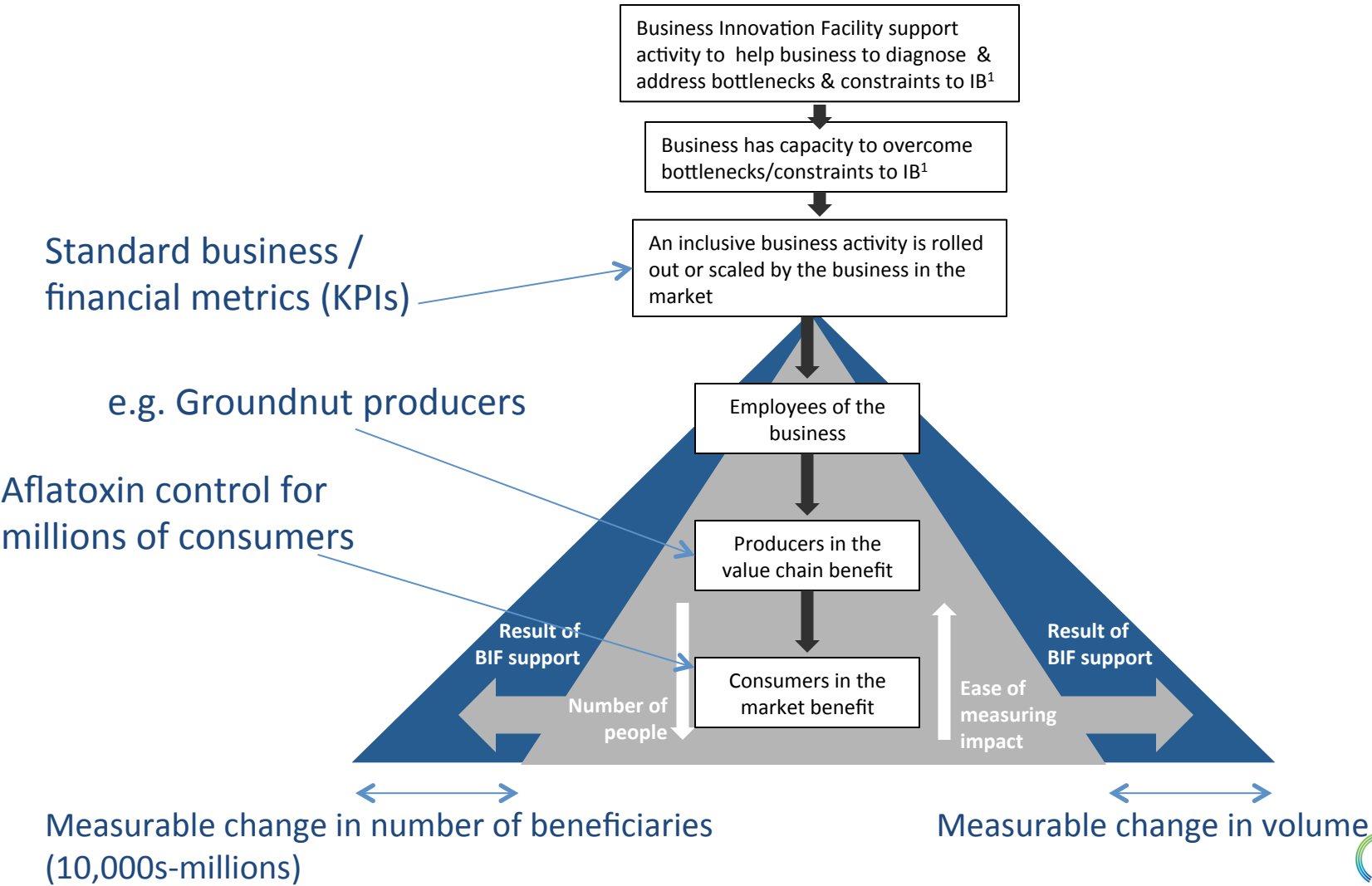


Identifying Impact

Simple traffic-light system to begin mapping impact

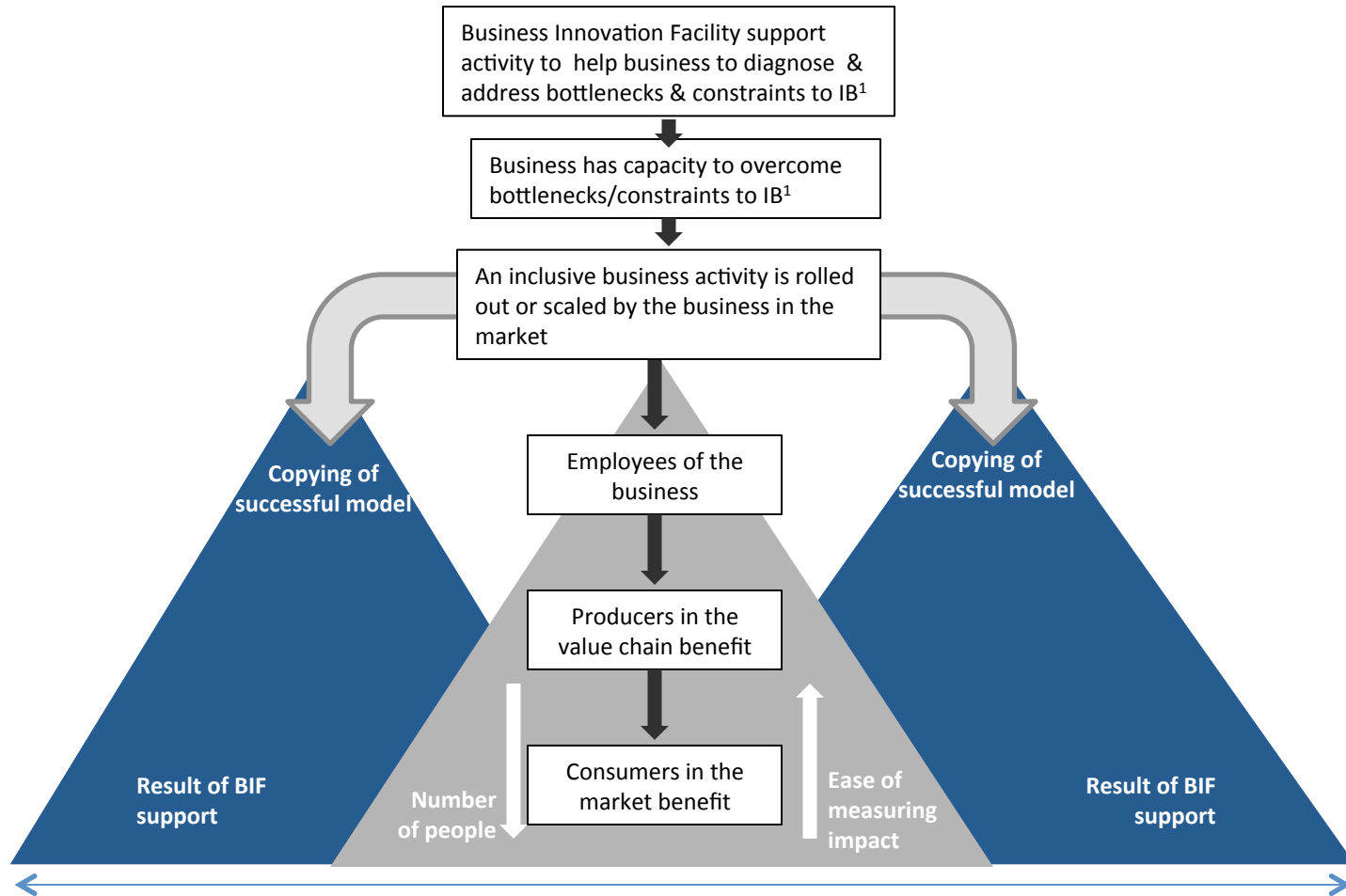
Indicator	Impact	Notes
Number of smallholders selling to AfrasiaCo	High	AfrasiaCo purchase from 100,000 farmers, comprising 15% of all growers in Zambia. They are seeking partners for growing that number to 150,000 farmers.
Price paid to smallholders	Medium	Farmers are paid no higher than market rate but AfrasiaCo believes that keeping prices low ensures their growth in sales of 25% in 2010.
Number of women employed in AfrasiaCo processing	Low	Women comprise 10% of their 200 staff employed by AfrasiaCo
Number of women accessing new markets through sales and entrepreneurship	High	AfrasiaCo seeks to work with ZamHelp women's group in Chipata to buy from a target 5000 additional women farmers.
Value of total purchases of crop from smallholder farmers (2010)	High	AfrasiaCo purchased \$10m of crop averaging \$100 per farmer / household.
Fair trade / contract sales at above market or set prices	Low	No sales under fair trading systems, and attempts to grow under contract farming have met with difficulty. This is an area where technical assistance could benefit AfrasiaCo to increase volumes at desirable prices.
Environmental changes in growing area	Medium	Irrigation system approved by Water Authority and water table measured in growing areas. Where no irrigation, farmer interviews are mixed but no clear result. Would welcome more support for non-irrigated farmers.

Results of BIF support on single business IB¹ results chain



¹IB' refers to the business' internal development process to design, pilot, roll out or scale an inclusive business activity

Results of BIF support for **crowding in** other businesses on IB¹ results chain



Number of beneficiaries? – requires wider analysis and judgement

¹IB¹ refers to the business' internal development process to design, pilot, roll out or scale an inclusive business activity

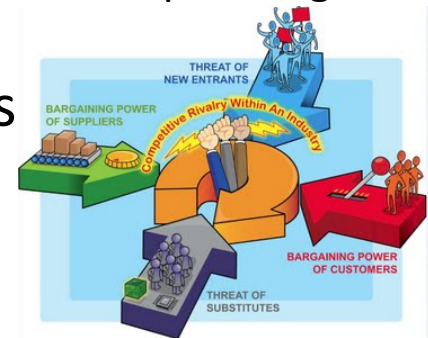
IB in Practice: Implementation

Tools in Inclusive Business

Practice	Sphere of Influence
'Normal' business planning – nothing odd here but often absent! Diagnostic process	Standard business methodology – but often adapted to include development metrics
Good financial information	Business
Value Chain Analysis	Development but close to business supply chain mapping
Results chains	Development – mapping out impacts
Partnership Brokering – this is key to success (IBLF)	Development
Application forms ...!	Development

NGOs and Business

- For businesses interested in this area, donor engagement can help by:
 - Capital: patient / soft capital investment – its not free!
 - Traditional management consultancy techniques for NGOs looking at business models - IMPORTANT
 - Diagnostics, strategies / analysis, financial information, business planning: Porter's 5 Forces, 7 S Strategy, Blue Ocean Strategy
 - Specific expertise / skills – incl. CWW business professionals
 - e.g. tannery expert, anyone?
 - Grassroots engagement
 - Christian Aid, Oxfam work with poor producers and consumers – they care about success! They can be supported to be better business partners



Support for NGOs Engaging with Business

- Strategy design for NGOs
 - NGOs are now moving into inclusive business / Private Sector arena (e.g. Christian Aid / ICCO)
 - They often have donors as **soft investors / patient capital** available
 - NGOs may have **limited experience** in the sector
 - NGOs need transition from a **'throwing stones', adversarial methods** to collaboration with companies
 - Businesses often have **limited knowledge** of the donor sector and its modalities
 - Privatising the NGO sector? Making projects sustainable can mean engaging business models – or businesses themselves

Weaknesses / Improvements in IB approach

- Structure of a programme can be donor-led, high compliance expectations
- What is *not* being tackled? Market failures? Infrastructure? Must be part of a larger development strategy
- Emerging theme – finance
 - Do companies want to give away *any* equity?
 - Is the current financial sector even remotely useable for investment?
 - Can you *really* help a business project without a cheap finance package? Long lead times in agriculture and many large impact sectors

Case Study: Kilombero Rice

Market Development



SMTTP (Scotland Malawi Trade Partnership)

- 3 year programme, designed by Imani
 - Imani UK project
 - Repeated engagement with private sector, supply chain development, export facilitation: quality issues, Creating Shared Value between private sector and development institutions

Results from the Partnership

Activity	Result
Scotland Malawi Trade Partnership export of kilombero rice to fair trade wholesaler.	Rice sold in schools, councils and other large institutions in Scotland in low to good volumes. 😊
Prices fairly established at high level through farmers association (and their super-association NASFAM). Milled by farmer mill in Karonga in far Northern Malawi.	<p>Good prices for farmers (but overall a very high price for selling). 😊</p> <p>Could they have sold more at a cheaper price and made more profit? 😞</p> <p>Continued delays and failure to address quality result in contaminated product. 😞</p>
Production quality issues force a re-appraisal of strategy. Solution? To deal with a commercial processor in Malawi	<p>Imani broker a partnership between farmer association and commercial processor in Blantyre. 😊</p> <p>All processing and most packaging can now be done in Malawi 😊</p>

Rice Value Chain Analysis

Estimates of income earned by main players in rice value chain

		Selling price/kg	Costs/kg	Profit /kg	Sales per season	Profit per season
Local Supermarket (over 92% of Malawian rice sold locally)		230MK	200MK Rice + 20MK costs	10MK	6,800MT	68million MK
De-stoner, packager and wholesaler		200MK	120MK Rice + 45MK costs	35MK	5,000MT	175million MK
Trader in Lilongwe		120MK	100MK Rice + 5MK costs	15MK	60 Metric Tonnes	900,000MK
Trader, Grader and Miller in Karonga		100MK	Grade, Mill: 10MK Trans. to LLW inc moisture loss 12MK Paddy: 45-55MK	23-33MK	30 Metric Tonnes	690,000-990,000 MK
Typical singular smallholder rice farmer, plot =1/6 acre		45-55MK	37MK	8-18MK	0.5Metric Tonnes	4,000-9,000 MK
Inputs to production	Water	1MK				
	Land	14MK				
	Labour inc Cow for first plough	16MK				
	Seed	2MK				
	Fertilizer	4MK				

Farmers are likely to have an income higher than this, because they would serve as their own labour and save costs on fertiliser and seed. This shows their 'real' profit.

Source: Imani Development via Karonga field trip.

Big Questions

- Who should add value?
- Will intended recipients really benefit?
- Price, or price x quantity? Is this really all about productivity?
- Is the wider economy 'wrong' so why help an individual company?
- 'Warm' vs 'cold' development

Summary: a good Inclusive Business project ...

Is ...	Is probably not ...
Is Creating Shared Value (CSV) , using a core business model or new business venture not really Corporate Social Responsibility (CSR) which can be valuable but as a discrete gift. Is it this clear cut?
About partnership which often needs time and management Not an adversarial relationship between NGOs, government, business or other actors
Is Replicable or scaleable . It is useful in itself but a supporting donor organisation can see wider benefits not just for the benefit of a single business or pilot group. But – should stand on its own terms (realistic objectives)
Helps the Base of Pyramid (BoP): 1) Producers, 2) Consumers or 3) has a good climate / environmental impact for disadvantaged groups. But also	... not normally business as usual , and aims for development impact as well as profit.
requires 'business DNA' and commercial insight ...	Does the business <i>HAVE</i> to share the values of NGOs? No – should include clearly commercial players.

Thank You

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