Taking the Bus Out of Poverty

INCLUSIVE BUSINESS

Practical Project: Development Cooperation
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FOREWORD

Taking the Bus Out of Poverty

Throughout our long discussions on the subject of inclusive business and the role that the SDC could play with regard to inclusive business initiatives we identified many complications of the concept as well as possible solutions, all of which are presented in this paper. However, what is perhaps our most successful insight as a group, is the elaboration of a metaphorical vision of inclusive business. In a matter of very simple terms the joint effort of development cooperation organization and multinational corporation, through inclusive business, can be summarized by “building a bus stop where the bus actually stops”. This phrase shall become clear in the course of this paper but some clarification here already is useful: the bus is the multinational corporation, the destination is “out of poverty”. The goal is to get as many people as possible on the bus. But the bus is only a bus, all it can do and does commit itself to doing, is stop whenever there is a bus stop. The development cooperation organization is what will help organize the construction of a bus stop at first, but more importantly it is the path that will bring the people to the bus stop. Many times it can be the bridge that allows yet another person to reach the bus stop that is on the other side of an un-crossable obstacle. Thus, even though there is merit in a multinational cooperation having it’s business “drive through” poverty-laden regions, the development cooperation organization is the true key link between the bus and the poorest of the poor.

We hope you will get on the bus also and enjoy the ride to what we believe is a step in the right direction.

1 EXECUTIVE SUMMARY

The paper at hand assesses the potential of inclusive business for development cooperation, in particular the Swiss Agency for Development and Cooperation (SDC) and the reduction of poverty. It defines the approach and distinguishes it from other popular concepts like corporate social responsibility (CSR) or shared value (SV). The two main models of inclusive business, catering to the poor as consumers and including the poor in the value chain are explained and illustrated with case studies. Other case studies are used to show benefits and limitations of inclusive business and to identify three factors which are vital for the success of inclusive business: market knowledge, cooperation and financial and risk management. The limitations to the inclusive business approach are assessed in detail to show areas for successful cooperation with public actors and non-governmental organizations (NGOs). The questions of state subsidies for business through inclusive business cooperation, the effect on the local informal economy and the impact assessment are discussed to give clear recommendations for public actors in general and the SDC in particular to increase the benefit of inclusive business for the poor. Possible measures include advocacy, providing market knowledge and facilitate networks for cooperation, capacity building, provision of innovative funding support and fostering the general business environment through a variety of approaches. With the potential for huge benefits for the poor, inclusive business offers a broad area for engagement to development agencies. The opportunity for multinational corporations (MNCs) to be the bus that takes people out of poverty has to be seized by providing the stops for people to get on.

2 INTRODUCTION

"… Although the private sector cannot solve poverty, poverty cannot be solved without the private sector."

– Neil Ghosh, Director of SNV-USA (devex.com)

Inclusive business is a concept that has gained importance and fame in recent years. Today one may even say that it is in full bloom and at the peak of its "trendiness" as more and more companies and other actors engage in inclusive business. This paper aims at a general assessment of the concept with the perspective of providing a bridge to development cooperation agencies and the major role that they can play in inclusive business. It will be shown that although inclusive business may be a trendy new concept, it has become a twenty-first century reality. It is the latest in a series of key concepts seeking to find a viable option for the private sector to contribute to the reduction of some of the globalized world's most pressing problems, in particular poverty. Inclusive business has its roots both in years of practical attempts at creating a role for the private sector in the field of poverty reduction and also in recent theoretical insights that foresee innovative business strategies integrating poorer sectors of society without giving up profits, a key necessity for business. This paper will situate the concept of inclusive business in a contemporary context. In the first section it will start from the view of business, notably multinational corporations (MNCs), and the theoretical arguments promoting their engagement in inclusive business. Then it will turn to different models that allow for MNCs and people from the poorer sectors of societies to successfully do business together. This will be followed by a list of competing or similar concepts and their principal advocates. In the second part several case studies will be presented to illustrate some specific benefits of inclusive business. The third part will consist of an assessment of the limitations of inclusive business. The fourth and final section aims at finding the role that can be played by development agencies, in particular the SDC, in order to increase the potential benefits for the poor resulting from inclusive business. The paper will end by recalling the key insights of the analysis and with some concluding remarks.

3 DEFINING INCLUSIVE BUSINESS

3.1 Theoretical Foundations

Although inclusive business can be generally classified into the comprehensive field that deals with the role of the private sector in development cooperation, there are some theoretical precisions that help distinguish inclusive business from other similar concepts. The concept of inclusive business that is popular today is based on key insights and assumptions first forwarded by Prahalad and Hart in the article "The Fortune at the Bottom of the Pyramid" published in 2002.

Prahalad's article does not mark the invention of inclusive business models; rather it is the first to make a case for multinational corporations (MNCs) to get involved and to take a leading role in reducing poverty through inclusive business. On the one hand the article sets criteria for inclusive business and sheds light on already existent private sector initiatives that have had positive impact. On the other hand it introduces the concept of the Bottom of the Pyramid (BOP) and points out the potential business opportunities the BOP offers while cautiously signaling changes in corporate strategy that are necessary for success.

The business argument for MNCs to invest in developing countries lies in the bottom part of the world economic pyramid, the BOP (Prahalad and Hart, 2002: 1). The BOP is composed of those people in society who receive less than $1500 annual per capita income (see Figure 1). Since these people's income is under the minimum for living a decent life they are classified as "poor". In numbers, the BOP holds two thirds of the world's population, the world's 4 billion poorest people or the "aspiring poor" (Prahalad and Hart, 2002: 1-2). Prahalad and Hammond (2002: 51) argue that serving the poor is a way for businesses to gain advantages. Contrary to popular assumptions the poor are far from being economically inactive (Prahalad and Hart, 2002: 5). The mere existence of the large and growing informal economy in developing countries corroborates this fact (Prahalad and Hart, 2002: 2). From this point of view, and due to their advantage in matters of volume, the poor become a source of massive market opportunities for MNCs which are already close to saturating their existing markets (Prahalad and Hammond, 2002: 51).

Exhibit 1: **The World Economic Pyramid**

Annual Per Capita Income*	Tiers	Population in Millions
More Than $20,000	1	75–100
$1,500–$20,000	2 & 3	1,500–1,750
Less Than $1,500	4	4,000

Figure 1: The World Economic Pyramid based on PPP in $ from the UN World Development Reports. Source: Prahalad and Hart, 2002 p. 4.

Although there are possibilities for MNCs to achieve growth and profits at the BOP, this cannot happen if they continue doing business as usual. In order to succeed in the BOP MNCs must make fundamental changes to their “conventional managerial logic” (Prahalad and Hart, 2002:5). The first big change is to give up on high gross margins because at the BOP the profit margins on individual units will always be low. Profits have to be reached by volume and capital efficiency (Prahalad and Hart, 2002: 5; Prahalad and Hammond, 2002: 53). In order to reach capital efficiency at the BOP innovation is a crucial element. Markets in developing countries are not like the ones in their developed country counterparts and businesses often hold false assumptions regarding them that first have to be revised (Prahalad and Hart, 2002: 4). The creation of adequate strategies for these markets will thus require a change in the attitudes and practices of executives in line with an understanding of the local functioning of business. Another challenge is the many institutional voids that plague developing country markets and make business there different than in developed countries. For the company this means substantial investments in innovation and infrastructure. Although this may seem costly, Prahalad & Hart (2002: 6) argue that these must be seen as investments just like the ones carried out in developed markets, such as plants, processes, products and R&D. Despite the numerous challenges, they insist on the fact that MNCs may well be the only actors doted with enough resources and persistence to actually be able to take on these investments and compete at the bottom of the pyramid (Prahalad and Hart, 2002: 1).

This change in business thinking can be linked to the insights that are also at the base of other similar concepts such as CSR and “shared value” that are listed in the following section. The thought at the root is that companies and the communities around them are intertwined and mutually benefit from each other’s well being (Porter & Kramer, 2011: 66). Accordingly, a company will benefit more from the society it is active in, if this society is healthy and prosperous. In the case of MNCs operating in developing countries this materializes by businesses integrating the poorer sectors of society into their business model and gradually contributing to overall poverty reduction. The fact that an MNC can do this whilst simultaneously achieving profit for the firm is the novelty of the inclusive business concept.

"… It is clear to us that prosperity can come to the poorest regions only through the direct and sustained involvement of multinational companies. And it's equally clear that the multinationals can enhance their own prosperity in the process." (Prahalad and Hammond, 2002: 49)

3.2 Inclusive Business Models

"Inclusive business models include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit." (UNDP, 2008: 2)

There are several ways through which MNCs can include the poor into their business model. The most common are as customers on the one side, and in various parts of the value chain on the other side. Furthermore there is a possibility for MNCs to engage with partners into bigger projects such as cluster building which contribute to the creation of overall inclusive markets. These different models are by no means exclusive and a single company may employ several of them simultaneously. Consequently the more ways, in which a company includes the poor into its activities, the more inclusive is its business. A short description of some different types of inclusive business models adopted by companies (the list is not exclusive):

The poor as consumers: Part of the self-fulfilling circle of poverty is not having access to all services or goods needed in order to live at a minimum standard. If MNCs can provide poor communities with initial access to necessary goods, they will not only have a new customer basis, they will contribute substantially to poverty reduction (UNDP.org-a) Nevertheless the poor are not the customers that MNCs are used to, and often their needs and available income are also different. Consequently, MNCs will often have to make proof of innovative thinking in order to conceive a range and packaging of their products especially for the poorer segments in society. However, once this initial challenge is overcome, "businesses will often be far more effective than governments and nonprofits at designing their marketing campaigns in a way that customers are motivated to embrace products and services that create social benefits, like healthier food or environmentally friendly products" (Porter & Kramer, 2011: 67). Case studies show that projects of this kind can vary through sectors of food, commerce, or energy and water provision.

The poor inside the value chain: By providing the poor with opportunities to become economically active and secure an income, MNCs can also contribute to poverty reduction in their local activity field. There are uncountable ways in which the poor can be included into the value chain of businesses, for example as suppliers, as distributors, or even as sales persons. In fact, the UNDP estimates half of its private sector projects to be value-chain related. A more detailed account of the specific role poor people can play in an MNCs value chain:

- **Suppliers / producers**: Inclusive business models provide businesses with a systematic and structured way of including low-income sectors into their value chains as suppliers of raw material or services (SNV WBCSD, 2008a: 19). The integration of poor smallholder producers and entrepreneurs or associations thereof, has been recognized by the UNDP as an effective form of poverty reduction (UNDP.org-a). It creates employment and income for the individuals concerned, allowing for better living standards and the possibility of gaining know-how. For firms, investing in longer term working relations with small farmers allows them to improve their quality and productivity (Porter and Kramer, 2011: 70). The majority of case studies using this model focus on the agricultural sector.

- **Distributors / Retailers / Service providers**: By including individuals from low income sectors as distributors, retailers or service providers, businesses can expand their market zone to low accessibility areas (SNV WBCSD, 2008a: 60). In this model companies can decrease their transaction costs and the poor receive new income opportunities that increase their living standards. "Moreover, poor people are efficient and reliable at linking their communities to the broader market. They have the knowledge and incentives to establish such links. And their strong social networks can often bridge market gaps and make up for missing enabling conditions" (UNDP, 2008: 67). This type of model is important mainly in the areas of commerce and retail.

3.3 Competing / Converging concepts

The field that deals with the private sector taking up activities aimed at solving social issues is relatively young and ever evolving. As a result, the actors involved often use their own terminology. This results in a variety of concepts that, when looked at closely, advocate the same idea or differ minimally. Here is a short explanation of the concepts often encountered in this field and their main supporters.

*"**Inclusive markets** are markets that extend choices and opportunities to the poor (and other excluded groups) as producers, consumers, and wage earners. Inclusive markets thus create jobs and affordable goods and services needed by the poor."* (UNDP.org-b)

This concept is at the core of the UNDP's private sector strategy "Promoting Inclusive Market Development". The approach is identical to the inclusive business concept presented in this paper with the difference that it is more comprehensive by focusing on the entire economy instead of on the specific market segments of the involved MNCs. Accordingly, it includes policy and institutional infrastructure, entrepreneurship development and corporate social responsibility in addition to the value chain integration and provision of affordable goods and services action fields as part of its private sector strategy.

*"**Shared value** can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates."* (Porter & Kramer, 2011: 66)

Porter (2011: 64) promotes the use of the value principle (benefits relative to costs) by businesses in relation to societal issues so that these issues are brought to the core of what businesses do instead of remaining at the periphery. The result is a more inclusive type of capitalism where "shared value" is created (see Porter & Kramer, 2011). Shared value is value creation both for society and business, in other words, a win-win situation. The principle of shared value is a way of looking at inclusive business from a business perspective but it leads to more or less identical models as foreseen by the concept of inclusive business: reconceiving products and markets, redefining productivity in the value chain, and enabling local cluster development. The latter is a more comprehensive approach to inclusive business where companies are encouraged to address gaps in framework conditions for cluster building that could also increase productivity. This approach typically foresees investment of companies in areas of logistics, suppliers, distribution channels, training, market organization, or educational institutions. This type of approach is also often characterized by collective action where companies partner with a number of other actors in an effort to share costs, win support and assemble the rights skills (Porter and Kramer, 2011: 72-75).

*"**CSR**: a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. It is about enterprises deciding to go beyond minimum legal requirements and obligations stemming from collective agreements in order to address societal needs."* (European Commission, 2006:2)

CSR is similar to inclusive business in that it requires companies to act on societal issues. It differs from inclusive business firstly by addressing the "*well-being*" of society, not necessarily its *inclusion* into the business model of the company. Secondly and most importantly, CSR does not require businesses to address societal issues in a *profitable* way. It is in this last aspect that CSR differs most from the concept of inclusive business.

Although CSR is nowadays a central consideration and integral part of the way many companies conduct their business, the concept does not provide the same benefits as inclusive business. Porter and Kramer (2011: 64-65; 76-77) argue that companies have increasingly adopted CSR programs as a reaction to external pressure from society who perceived them as a major cause of social, environmental, and economic problems. Thus CSR becomes more about *reputation* and the company enters a "social responsibility" mindset in which social issues are at the periphery not at the core of business. This manner of treating CSR as necessary expense and reputation-driven is difficult to maintain in the long run. Although CSR is not a negative activity, it is necessary for companies to move beyond the CSR approach to one that will bring social issues into a company's "core business". Figure 2 shows a comparison between CSR and Porter's shared value concept that, as already mentioned, is at the root of models almost identical to the ones promoted by the concept of inclusive business.

Figure 2: How shared value differs from corporate social responsibility. Source: Porter & Kramer, 2011.

Although CSR differs from inclusive business in certain aspects, it shares the aim of getting companies to tackle certain social issues and has its own utility. Indeed, not all social problems can be solved through inclusive business models so there is definitely field of action left for CSR models. For this reason, CSR is often found linked to inclusive business initiatives like for example the UNDP's private sector strategy. Moreover in practice, it is not always easy to distinguish clearly the between CSR and inclusive business in the way companies describe their projects. The next section will show a variety of cases of inclusive business and their impact on the poor population.

4 BENEFITS OF INCLUSIVE BUSINESS – CASE STUDY ANALYSIS

One of the first benefits of inclusive business is poverty alleviation and added social value for the population (Gaye, 2007). Inclusive business reaches this goal by including the BOP into the business model of a firm, be it as consumers or producers. But there are more benefits of inclusive business, sometimes even unforeseen. In this section several examples of inclusive business models are presented and illustrated by explicit case studies with the precise benefits of the case put forward in the end.

4.1 Tiviski Dairy – The poor inside the value chain as producers

It is not easy for people from the BOP to be active on the market as suppliers. This can be because the company that buys the production does not know about the small producers/farmers, or has difficulties accessing them. An example is here presented which shows how the inclusion of the poor into the value chain as producers can alleviate poverty through more food security and the use of traditional lifestyle by earning a salary.

Mauritanian herders milking their camels. Source: uk.fashionmag.com

The Case

It takes place in Mauritania, one of the poorest countries in the world with very little natural resources and where the rate of illiteracy is close to 80% (Gaye, 2007). Its population is composed of mostly semi-nomadic herders which are almost self sufficient with their cattle (goats, camels, cows). There are neither farms nor fences throughout the country. The initiative "Tiviski Dairy" was launched in the 1990's by a British woman, Nancy Abeiderrahmane. She had previously moved to Mauritania in the 1970's with her husband who was originally from this country. Over the years, she had observed that people in Mauritania consumed in average one and a half liters of milk per day. However the increasing number of people who lived in urban areas either had their milk offered or bought from friends and family; or consumed imported European Ultra High Temperature (UHT) milk or powder milk. Therefore the local milk was distributed in unsanitary conditions, from door to door around the city. Mrs. Abeiderrahmane saw the opportunity to create a dairy center to process local milk and sell it in hygienic conditions.

However, this activity faced great challenges. Milk production can vary a lot according to the seasons and the overall productivity per animal is quite low because of the sparse pasture and the arid climate. Additionally, if the milk is to be sold in the cities, fresh milk has to be processed and refrigerated in modern facilities, which were non-existent at the time. Finally, the complete disorganization and lack of any form of veterinary support for the animals also affected the final productivity. At first, Mrs. Abeiderrahmane built a dairy of two units to face the problems: a pasteurizing unit and an UHT unit for the overproduction in the rainy season. She created more than 200 direct jobs (100% filled by Mauritanians) as well as additional indirect jobs (e.g. people who collect the milk directly in villages). In all, this helped provide livelihood for approximately 1'000 families of herders (Gaye, 2007). She called the dairy, the Tiviski dairy. Today, the dairy has 3 collecting centers which are furnished with modern equipment. The dairy pays a fixed price for the milk: the herders bring their milk directly to the collection center or people collect the milk through the village and then transport it to the collection center. Twice a day within a 100km radius from the collecting center, milk is collected and then sent to the capital to be processed. The number of suppliers delivering milk varies between 600 and 1'000 depending on the migrations and the season. A voucher as a form of payment is then given depending of how much milk the supplier provided. The voucher can be transformed directly in cash or even used as money.

Benefits

The money collected from the milk helps the herders to take care of their animals, but most of all, this dairy has enabled poor nomadic people to earn a living from their previously non-productive livestock. Now camels are seen as a form of capital and they are more carefully looked after. Finally this dairy has improved the general standards of living as well as the health standard of the herders. They are paid, thus it is a security for them for the future and permits them to diversify their food and hence have a better balanced diet. A support for the animals has been put into place, so their “capital” is also better protected in case of illness. This inclusive business model has helped them to enter the value chain as suppliers, earn a living and secure their future. Poverty alleviation has become a reality for them.

4.2 Nestlé "Regionalization" – The poor as empowered consumers + The poor inside the value chain as distributors/sellers

In developing countries the poorer sectors of society often do not have the possibility to participate in the market either because of monetary constraints or because of accessibility difficulties. When the poor cannot access primary goods and services they need, this becomes a serious problem that affects their health and capability to work. Here the example of Nestlé in Brazil shows the inclusion of the poor into the business model of the company as consumers and also inside the value chain as distributors/sellers. This project empowers the consumer by bringing her/him a product tailored to her/his needs, thus alleviating the poor of some of her/his burden. It also provides new jobs and extra income for the people acting as distributors/sellers. This benefit is shared throughout the population targeted.

The Case

Nestlé is very well implanted in Brazil (98% of the households have Nestlé products at home) and provides products for different population segments (Nestlé Brazil Press Release, 2010). Nestlé employs 18'000 people in Brazil and more than 220'000 in indirect jobs (Nestlé Brazil Press Release, 2010). Nestlé's program called "regionalization" is in place since 2003: Nestlé researched which products fit the population from different regions better. A part of the population lives in *favelas* or in remote areas and has difficulties accessing goods through the regular ways of consumption. Nestlé saw an opportunity to reach those people, but first had to find a new way of doing it. Indeed, the *favelas* have difficult access in terms of transportation and infrastructure such as electricity water.

In 2007 in Sao Paulo, Nestlé put into place an innovative system of distribution of its products by hiring women from the neighborhood to go door to door to sell the products. Nestlé pinned down the specific needs of the population and then recruited micro-distributors to go around the households with small carts containing food. Nestlé engaged sellers who are directly from the communities to go around the neighborhoods to distribute the products because they are not estranged to the functioning of the *favelas.* Most sellers are women because women are generally at the head of the family and finances, also the trade between women is more trustful and they develop a bond overtime. A whole part of the population, which was not reachable before, is now included in the value chain and are customers of quality products.

A new system based on a similar concept was put into place in 2010 with a boat. This boat is a floating supermarket circulating on the Amazon for the population on the riverside who otherwise encounters significant hurdles to access the market. The boat's journey lasts 18 days, stopping one day in each bankside city. According to Nestlé approximately 800'000 people benefit from this supermarket boat every month, a special access for elderly and disabled broadens the reach for potential consumers.

The Nestle barge: 27.5 m long boat housing 3 stock areas and 100m² store space. Source: thesupplychainlab.com

"*We are going to pick up the customer where he is. It will be a service to the population of the Amazon, who has streets and avenues in the form of rivers. It is a project aligned with our concept of Regionalization, based on the different profiles of consumers. We deal with each region as a different area"* – Ivan Zurita, C.E.O. of Nestlé Brazil (Nestlé Brazil Press Release, 2010).

Benefits

With this project, Nestlé increases opportunities for people living in remote areas. It allows them to have a very simplified access to good quality products. It includes them into the value chain. The benefit for the local population is extensive, as it also permits them to be more socially included. The company also makes a profit selling its products to these new markets. It is a win-win situation. Furthermore the system put into place by Nestlé does not solely benefit the consumers and the firm but it offers jobs to 7'500 people (Nestlé Brazil Press Release, 2010). Those jobs represent a substantial income for the resellers. Moreover they provide good quality employment and working conditions.

Moreover Nestlé is providing training and guiding for the resellers, notably how to approach and conquer new consumers. The resellers also get information on sales, among others. So Nestlé offers them capacity building they can use in a different context or for a future job, which is most valuable in a career path. This example shows the inclusion of the poor as consumers and also their integration as distributors into the value chain.

4.3 INENSUS - Private Public Partnerships to provide public goods and services

Helpers from the local community install the measurement pole. Source: entwicklungsgeschäfte.de

Partnerships between the public and the private sector play a decisive role in the development of infrastructure, notably in developing countries. In economic theory, pure public goods are provided by the public sector, because by definition the private sector does not have the incentive to do so (Holcombe, 1997). Water and electricity are prime examples of this: if the private sector would supply water, each company would have its own grid of pipes linked to each home, a situation which does not make any sense. Therefore the state provides public goods. In a developing country, public goods are often defective or just absent. The state has inefficiencies and thus cannot offer a complete range of services to its population.

In certain cases the private sector can intervene in the supply chain but only through a partnership with the public sector. The projects in the development field and the private sector can find a common ground in order to be complementary and effective through a joint effort.

However a certain ground has to be there for this partnership to develop and thrive. One necessary condition would be that the region is integrated in a transportation system, with roads or railways for example. So the private firm would benefit of what the public sector offers, notably security for the investment and knowledge of the terrain. The public sector could benefit from the organized structure of the company, the cost-accounting or the research and development sector (Gradl & Knobloch, 2010).

Moreover the public sector is not the sole possible contributor to the partnership, NGO's, other key actors in civil society, academic institutions, or development agencies such as the SDC can participate and create opportunities to develop a partnerships. Therefore many possibilities are available to the creation of private public partnerships (PPPs) and the benefits for the population concerned are substantial and can largely improve their lives. The development of public goods improves the living conditions of the population as it is a variant of the consumer-based model of inclusive business and allows better preconditions for future investment in the long run. Additionally investment in infrastructure in a region can bring further investment and thus place the region in a virtuous circle. An example here is presented of one successful PPP which takes place in Senegal.

The Case

The German start-up "INENSUS" makes small wind turbines and decentralized energy systems. In 2007 the founder of the company went to Senegal with the German delegation of the Federal Ministry of Economics and Technology. The trip was organized by the German cooperation and development agency. The founder of INENSUS first found that the coastal regions of Senegal offered prime conditions for the development of wind turbines and decentralized energy supply; because only 20% of the population are connected to electricity and the region is quite windy (Gradl & Knobloch, 2010). Therefore INENSUS allied forces with the local Senegalese energy company to develop a project towards a larger energy supply for the population. In this common effort towards a better service for the population, they created a new joint venture of the two companies. INENSUS provided a hybrid system fit for the region composed of wind turbines, solar panels and a diesel aggregate. However this service was not given to the village for free. While they certainly did not pay the full price of the fixed costs, they did contribute partially. The incentive to pay for a service motivates the people and they do not feel aided, but have a feeling of dignity being able to support themselves. Moreover this business model assumes that more productivity will emerge due to increased energy production. Therefore a virtuous circle could develop and the demand for energy could go even higher. The model thus relies on the healthy economic development of the villages it serves.

Benefits

The benefit for the population is double. They now have a supply of energy which allows them to pursue other economic goals. With energy the possibilities are broader and the inhabitants can undertake economic activities such as sowing. Another important aspect of this project is the sustainability and clean energy it provides. The majority of the energy supplied is renewable, thus making the model even more attractive. The environment of the region is ecologically preserved and benefits not only the people but the whole region. Finally this project adds to the general welfare by providing an essential public good.

4.4 Natura - Preservation of the biodiversity – The poor inside the value chain as producers

Another example of ecological sustainability for the region and its inhabitants is the case of Natura in Brazil. Here the benefits are simultaneously for the local population and for the biodiversity of the whole area.

Priprioca root. Source: aoperfumista.com

The Case

Natura is a Brazilian cosmetic manufacturer which positions itself as a sustainable and ecologically-friendly company. The products it manufactures use special plants only found in Brazil (Gradl & Knobloch, 2010). Following this strategic path, the firm wanted to create a new line which would use a plant, the priprioca, which grows only in the northern Brazilian rainforest. However this plant is quite rare and it was not available in sufficient quantity to produce the new line. This plant had never been grown as an agricultural product and no market for it existed. The local population uses this plant as oil with special virtues, such as its fragrance. The idea envisioned by Natura was to propose to the villages wishing to participate in the project the opportunity to grow this plant. Natura would provide the seeds and trained the villagers in the growing method. Therefore the population was transformed into suppliers and a new supply chain emerged.

Benefits

The benefits for the population are multiple: they have a steadily paid activity, are able to stay in their villages and acquired new skills to grow the plant. Moreover Natura put a certification for the production of the plant into place, certifying that it is grown sustainably and ecologically. Hence the biodiversity of the region is safeguarded. This new supply chain is a real gain for the villagers (Gradl & Knobloch, 2010). This is a good example of the innovation that can be fostered by inclusive business. Not only does it integrate poor people into a supply chain, giving them an opportunity to make a living, it does this in an ecologically friendly way.

4.5 Diageo and Hindustan Lever Ltd.- Tackling health problems - The poor as consumers

Companies that are in the field of health or deal with public health issues could help to tackle those problems in developing countries through inclusive business models. Most health situations that are largely present in developing countries are quite often minor in developed countries. For example diarrhea, eye problems, prosthetics for missing limbs, iodine deficiency disorder and the like. If there is a will, simple solutions can often be found. Benefits for the bottom of the pyramid can be very large as public health issues touch a large part of the population in developing countries. Diarrhea can be tackled by instituting a habit of hand washing; iodized salt can reduce cases of cretinism, goiter, gross mental retardation or short stature. The well-being of the population is of utmost importance. Problematic public health in a region or country hinders the economic productivity, but also the possibilities for the individuals to work and earn a salary.

Therefore real progresses could be made with inclusive business by benefiting the population while allowing the firm to make a profit out of it. Two cases of inclusive business are presented, each trying to tackle a health situation in a developing country.

The Case of Diageo

Kenyan man enjoying a Senator Keg beer. Source: brewpublic.com

Diageo is one of the largest groups worldwide in selling alcoholic beverages. The firm is very present in Africa and is committed in several inclusive business projects, notably concerning the value chain, growing sorghum, barley and others locally.

In this case, Diageo wanted to aim at the consumers by providing a product that could also help with a health situation. The company is well present in Kenya, where is sells different alcoholic beverages, in particular bier. However a bottle of bier costs approximately 80 shillings, a price that is unaffordable for most people in the BOP (Accenture Case Study, 2010). Hence the poor cook and make their own alcohol in the informal market. But this has dangerous consequences. This home made alcohol has a very high alcohol level and is made illegally in the slums with the addition of various toxic substances to make it more powerful. Evidently this alcohol is a lot cheaper than legal, taxed alcohol. However, it creates large health problems in the population. People die because of its toxicity or become blind because of the high alcohol level. Subsequently, there is a real health problem linked to this illegal and toxic alcohol.

Diageo found the opportunity to intervene in this gap. It made a proposition to the Kenyan government for the creation of a new product destined to the BOP that would not contain these health hazards. One of the conditions for the firm to be able to offer this product cheaply was for the Kenyan government to withdraw the tax on alcoholic beverages for this new product (Accenture Case Study, 2010). The product was named Senator Keg. With the deal made between Diageo and the Kenyan government, the beer could be sold at a much cheaper price and compete with the illegal alcohol. The second cost reduction came from the packaging: instead of in bottles, the beer was delivered in kegs. Hence this new beer, instead of costing 80 shillings, came for 15 to 20 shillings, approximately the price of illegal alcohol (Accenture Case Study, 2010).

Benefits

Diageo created a real opportunity for the poor to be able to consume a cheap and safe product. Everybody wins: the government, even if it does not collect a tax on the beer, has a product that lowers public health problems and costs; the consumers have access to a safe product and Diageo has an expansion of its business. Moreover the barley used for this beer is locally produced, making this product truly local and aimed at the benefit of the society it serves. And because this beer is approximately 5 or 6% alcoholic and the illegal alcohol is 40%, it offers a real alternative to consume alcohol safely. It is one step towards a national health solution. In addition, Diageo makes only a very small margin on this beer, thus proving that this national health situation matters to them.

The Case of Hindustan Lever Ltd.

Annapurna iodized salt. Source: unilever.com

Another prime example of the reduction of a health problem by a company through a profit-oriented business is iodized salt (Annapurna Salt) by Hindustan Unilever (HLL). HLL is part of Unilever, a large multinational corporation specialized in hygiene, personal care and nutrition.

The lack of iodine (Iodine Deficiency Disorder, IDD) in nutrition is the world's leading cause of mental disorders, retardation, low IQ and goiters (Prahalad, 2010: 261). Almost 30% of the worldwide population is at risk of IDD. The poor are more subjected to this condition, because when on a well-balance diet, iodine is sufficient. In India, 70 millions are subjects to IDD and do not receive the correct amount because 75% of all salt is non-iodized. Many people, especially the poor, do not want to pay more to have iodized salt because they do not know the human body's requirement of iodine and the implications it has on human health (Prahalad, 2010: 263). The paradox to this health problem is that the solution is known and inexpensive. However the traditional method to iodize salt in India and in most developing countries, does not guarantee that the salt will remain iodized when consumed. The cumulative effect of heat, cooking and storage diminishes the remaining iodine in the salt.

Moreover almost 300 local producers are on the market of salt in India with various degrees of quality and sometimes the packaging is erroneous, stating that the product has iodine when in reality it does not. Therefore there was a chance for a multinational company with market information, technological know-how, distribution network and financial capabilities to reach the poor with a profit. Effectively, HLL had to compete with local distributors that have very low prices (Prahalad, 2010: 267). Thus HLL had to set it's price even lower to compete with the locals and ensure that its own salt was "preferred" to others; its price was the lowest of all HLL products. Furthermore HLL developed a special molecule to enforce and make sure the iodine is in sufficient amount when ingested. HLL also had to create a brand and advertise it to make it popular. Moreover the poor do not buy large quantities of products in one time, they prefer smaller packaging. Therefore HLL made small packages of salt.

This example shows how a multinational can make profits and also tackle a national health problem. Nevertheless the structure of the company made it possible: the firm knew the country, the needs of the population and the market well and knew how to promote a product. It also had the financial capacities to develop this product: it demanded time and research which both carry substantial costs (Prahalad, 2010: 268). HLL also had the volume capacity to produce on a large scale and distribute the product even in remote areas.

Benefits

Finally, a public health situation is fought and the company makes profits out of it. In addition the product, salt, allows the firm to reach and be known to new "poor" clients and enhance their bottom product line.

5 SUCCESS FACTORS, LIMITATIONS AND CHALLENGES

There are many arguments for the beneficial impact of inclusive business initiatives on developing countries, as shown in the previous section. The understanding that an involvement of the private sector is needed to support and accomplish the UN Millennium Development Goals (MDG) seems to be widely spread and accepted (Averyt, 2010; Gradl & Knobloch, 2010; UNDP, 2008). Nevertheless, inclusive business is not a magic-bullet in the fight against poverty. The analysis of cases shows that a specific set of supporting circumstances fosters the success of inclusive business ventures. Furthermore, the analysis of key levers highlights its various limitations. None of those limitations are irrevocable, but they help to identify additional areas that need special attention for the successful implementation of inclusive business initiatives. The bus stop examples will be continued to illustrate the key factors for a smooth ride.

This section is structured as follows: First, key success factors of inclusive business ventures will be shown. Second, inherent limitations will be mentioned and finally, resulting challenges will be discussed to prepare our recommendations in Chapter 6.

5.1 Key success factors

The greatest challenges to inclusive business initiatives are the difficult market conditions in developing countries and the little knowledge many companies and MNCs have about them. Therefore past successes and failures of inclusive business initiatives have to by scrutinized, validated and systematized, to become able to draw parallels and learn from prior experiences (SNV WBCSD, 2008b). This also provides the initiators of an inclusive business venture with factual arguments to build solid assumptions and make realistic forecasts (UNDP, 2008).

Three key success factors, which essentially influence the outcome of any inclusive business venture, can be identified within the influence-sphere of each business: market knowledge, cooperation and financial and risk management. If executed properly, both factors alter transaction costs and risks for companies and make their engagement most beneficial for them and the people in a specific region. Thereby it becomes a successful and, most importantly, sustainable endeavor.

5.1.1 Market knowledge

Understanding business cultures, consumer preferences and local specifics are of utmost importance for MNCs which want to enter a new market as buyer or seller or cater to a new costumer segment. Such knowledge, like e.g. about local characteristics like family structures or opinion leader can be used as integrative part of a business model. Aravind Eye Care or Grameen Bank have built a substantial part of their risk management on peer supervision and pressure (Gradl & Knobloch, 2010: 19; 61). Idea Cellular has used knowledge about people's living and purchasing habits to develop new offers and distribution channels for its telecommunications services in India (Jenkins & Ishikawa, 2010: 32-33). As seen in section 4, Nestlé did substantial research to adjust its business models to the needs of consumers in Brazil. Multinationals which target a country, region or customer segment for the first time have the option to work with many stakeholders to gain in-depth knowledge about the markets. Here, NGO's and state actors often play the role of mediators and providers of research, knowhow and training.

5.1.2 Cooperation

"Effective collaboration and partnerships are recognized as a critical success factor in the development and implementation of inclusive business models" (BCtA, 2010: 3). Partnerships with local companies, the public sector or NGOs can widen a company's skills base and provide valuable insights into local consumer needs. Including new perspectives by working with a range of partners can further increase the benefits of inclusive business initiatives. The World Business Council for Sustainable Development (WBCSD) mentions the buy-in of public and private sector, as well as the civil society as a key pillar for the success of inclusive business initiatives (SNV WBCSD, 2008b). Cooperation between public and private entities is not new to the business world. Under the name of public private partnerships, it became a sustained model in developing as well as in developed countries.

According to the United Nations Foundation, five critical guidelines exist for successful public-private partnerships (Averyt, 2010):

1. All partners need to work closely together right from the beginning
2. All partners involved need to understand all expectations and objectives, monetary or not, before the begin of the project
3. Goals and objectives need to be established to reflect the interests of all groups involved
4. Gaining experience in PPPs with the same partner becomes increasingly important because more trust means stronger partnerships
5. Donors need to make sure that the partnerships deploy the money for the intended purposes

But finding the right partner in a developing country which understands the new market segment targeted by inclusive business initiatives, is not easily done. Local partners have to be suitable and reliable to work with MNCs. Both parties will need a clear value proposition to cooperate and trust each other in a long-term perspective. The mentioned German INENSUS had to build substantial trust with its partners in Senegal, to be able to provide sustainable energy to the poor.

One of the mayor points mentioned in many successful case studies like in the case of the value-chain example of small cocoa farmers and United Sweets in Ecuador, is the agreement on a "just" price (Balch, 2007). This gives small farmers a price-premium above market prices in return for high quality and a reliable supply. In addition, long-term purchasing commitments help the locals to make substantial investments under reduced uncertainty.

5.1.3 Financial & Risk Management

"Providing access to credit is often the key bottleneck when it comes to scaling up alliances between small producers and large companies" (Balch, 2007). Small producers usually require substantial upfront investments to meet quality standards and quantities required by large companies. Also, MNCs might require investments to adapt to new markets. In both cases, new models of financing have to be found to build the financial foundation on several partners and a mixture of financial instruments (BCtA, 2010: 3). Successful cases studies show a variety of ideas, but the provision of credit and loans is most frequently used. E.g. Idea Cellular established a scheme were it finances micro-entrepreneurs to purchase and operate their equipment (Jenkins & Ishikawa, 2010: 34-35).

As mentioned above, long-term purchasing agreements seriously lower the risks of investments for small producers. In addition, this can lead to lower financing costs since financial institutions can use such agreements as guarantees for the granting of credits and loans. This on the other hand reduces production costs for producers which can reduce purchasing prices for buyers. Thereby a sophisticated risk management is an integrative part for successful cooperation.

In cases where getting a long-term purchasing agreement is not an option for a small producer or where this is not enough, cooperation with public institutions or international organizations might offer additional options to finance investments (Jenkins, 2007: 31).

5.2 Limitations

Although there are many positive examples of what can be accomplished with inclusive business initiatives, this model contains certain inherent limitations due to its set-up: inclusive business ventures are (at least partly) private initiatives which deal with poor segments of the population in an tailor-made form which is intended to reduce poverty and generate profits for the business. A variety of factors influences the social and economic environment inclusive business initiatives operate in.

5.2.1 Infrastructure

Where the necessary infrastructure like roads or power lines is not developed, the private sector will have difficulties to develop. In particular MNCs, which depend on modern processes to secure the price and quality of their products, rely heavily on a certain provision of infrastructure (UNDP, 2008: 6). This cannot be guaranteed by the private sector but has to be provided under the supervision of governments. In cases where the public does not have sufficient resources, it can either cooperate with private investors or create a market which enables private companies to engage in that specific field as in the case of INENSUS. At the same time, the public sector has to guarantee that those products and services become available for the poor (Khan 2006: 10). To continue with the bus stop example: The bus cannot go around if there are no roads and gas stations. It will not pick up people if there are no possibilities to stop.

The possibility for the poor to actually come to a bus stop near them heavily depends on the provision of infrastructure in their region. This leaves room for national and international cooperation between the public and private sector as well as with the civil society. The example of Manila Water's inclusive business model illustrates such cooperation with the result of clean and safe drinking water for the poor in the Philippines. While the company Manila Water takes responsibility for installing infrastructure, local and municipal governments help reduce the cost, e.g. by waiving permit fees or providing financial subsidies. Communities determine their own level of participation which can include community based organizations being responsible for collecting and remitting fees to Manila Water (Jenkins & Ishikawa, 2010: 38).

5.2.2 Regulatory regime

An efficient regulatory regime and stringent implementation are the keys to provide vital services and to ensure certain (socially desirable) standards (Khan, 2006: 10). Furthermore it influences the perception of foreign investors about the risk of their investment (BCtA, 2010: 3).

It is very important to identify the key actors within government to get them involved early on in the process of designing pro-inclusive business regulation. The WBCSD, by working with the Ecuadorian government right from the start, has successfully supported the implementation of the inclusive business concept within the Ecuadorian regulatory system (SNV WBCSD, 2008b).

A mayor challenge in this area seems to be the design of the right kind of regulation to actually foster the development of the business sector. In 2007, Ecuador explicitly implemented the support of inclusive business initiatives in its economic strategy and established a special ministry. But in 2010, after three years, Ecuador is ranked even lower in business environment competitiveness than before the measures in 2005 (World Bank, 2010: 160; World Bank, 2005: 122). Besides the weak overall ranking, there has been some success: opening a business has become less time consuming and cheaper. Enforcing contracts is achieved significantly faster (388 days in 2010 compared to 588 in 2005), but has become more expensive. While importing can be done more rapidly, exporting remains as time consuming as in 2006. This makes the overall effect on Ecuador hard to evaluate. To look at the growth of the gross domestic product (GDP) since the regulatory changes in 2007 is not helpful to assess the success of the new regulation due to the high volatility during the worldwide economic crisis from 2007-2010.

In general, the regulatory regime has a huge impact on the development of inclusive business initiatives because it defines the “rules of the game” for entrepreneurs and investors. In particular an efficient and effective legal system and monitoring are fundamental to ensure the functioning of markets (Khan, 2006: 7).

Changes in government or other key decision-making positions in the political or business sphere, as well as pressure to act in times of crises generally provide a good environment for new ideas. Inclusive business offers a constructive solution for many problems developing countries face and it offers furthermore the opportunity to bridge the gap between business and government to restore trust in a country's economy (SNV WBCSD, 2008b).

5.2.3 Time

It is obvious, that most inclusive business initiatives need a long-term perspective. They often take a long time to scale, require substantial marketing efforts and deal within imperfect or even unpredictable regulatory environments. This collides heavily with the often very short-term oriented decision-making mechanisms within MNCs. While the development horizon goes over many decades and even generations, MNCs try to increase their return in short periods adjusted to financial market reporting standards and shareholder expectations. It might make it difficult for inclusive business initiatives to plead their case and obtain funding within its proper organization. To account for these differences and to secure independent, cost-efficient structures, authors propose the creation of separate entities for inclusive businesses (BCtA 2010: 3-4).

5.2.4 Profitability

Businesses, especially MNCs, have to generate profit from their activities other than philanthropic initiatives. As shown in previous sections, the prerequisite of operating profitable is one key distinction between inclusive business and traditional CSR. At the same time, this is one of the main limitations of inclusive business when it comes to reducing poverty. Inclusive business initiatives will only be established where the term Profit = Revenue – Costs stays positive. It is accepted by MNCs that inclusive business initiatives don't yield the same margin as businesses in developed markets, as seen in the case of Senator Keg beer by Diageo, but nevertheless an individual threshold has to be reached (UNGC, 2010: 8).

Serving the poor means providing them goods and services for a price adjusted to their possibilities. When they are included in the value chain, it means providing them with a wage or price that improves their well-being and lifts them out of poverty. Because, from a MNC-perspective this means either lower revenue (lower profit contribution) or higher costs (higher purchasing prices, wages and product/service development costs), inclusive business has to provide them with a solid, profitable business case. In consequence, businesses either need large volumes with low marginal costs to amortize investments with lower margins, or lower costs of investment. As a separate argument can be mentioned, that developing poor market segments yield the long-term benefit of increasing the purchasing power of the poor in the future which can positively affect a MNC's traditional business.

The possible volume depends on the one hand of the size of the market and on the other hand on the cost of distribution, sales, marketing, etc. This is highly dependent on the specific country or region where the inclusive business initiative is planned. Cooperation with existing local networks extends the reach of inclusive business ventures at low cost. Idea Cellular used the networks of microfinance institutions to acquire new entrepreneurs. While some companies can use their partner’s or own networks for inclusive business, others have to build them from scratch (Jenkins and Ishikawa, 2010: 8). It requires extensive market knowledge and is needs high resource intensity (especially time) to be built and sustained. By cooperating with locals, there are many possibilities for MNCs to reduce their costs. In the case of Hindustan Lever in India and Nestlé in Brazil cooperating with local distributors has proven to be a successful and cost-efficient possibility to reach poor consumers. Cooperation is also highly successful in influencing the cost side of the equation as seen in Chapter 4 and discussed in section 5.1.2.

5.2.5 Inclusion

As shown above, it is difficult to serve the poor in ways which are profitable to such an extent that MNCs are tempted to dare the endeavor. Today, many positive examples like Hindustan Lever in India or Nestlé in Brazil show the success MNCs can have in more homogenous markets of significant size.

But no matter if the BOP is defined by one (Haughton & Khandker, 2009: 46) or two US-Dollars per day or 3.000 US-Dollars (Gradl & Knobloch 2010: 4) or 1’500US-Dollars per year (see Chapter 3.1), “the poor” are never just one uniform mass. Their lives, circumstances (assets) and needs strongly differ between regions and countries and successful business models in one country can not just be extended around the globe to solve one specific challenge for everyone. The International Fund for Agricultural Development (IFAD, n.d.: 1-2) identifies most importantly human assets (nutrition, access to services), personal assets (motivation, abilities), natural assets (land, resources), social assets (relationships, family ties), physical assets (infrastructure) and financial assets (wages, credit). People with different characteristics will have access to different combinations of livelihood assets which they can use. This heterogeneity greatly reduces MNCs possibilities to exploit the benefits of scale in small countries. As a result, it is more likely that inclusive business initiatives are started in countries with a larger segment of poor people. In smaller countries, MNCs like to cater to specific segments among the poor which are relatively wealthier. While the purchasing power which is easier to access gets included, large numbers of even poorer people remain excluded.

5.3 Challenges for inclusive business

By reflecting on critical business-internal and business-external factors, a variety of sensitive areas, which are crucial to success, could be identified. But aside from trying to make inclusive business initiatives more successful, the model faces three fundamental questions:

5.3.1 Does inclusive business mean subsidizing large companies?

It can be read many times that inclusive business models are dismissed by public actors because there are certain biases against cooperating with for-profit organizations. It is obvious that every state actor has to ask himself if she/he is unintentionally subsidizing the profits of a private company. This is in particular the case for foreign donors from the sector of development cooperation. But the considerations have to remain the same as concerning a standard public-private-partnership in the home country. No general answer to this problem exists. For every project individually, the actor concerned has to figure out if inclusive business is the most effective and sustainable way to deal with the challenge and if it is money well spent. The focus has to be on supporting the local poor and parts of the inclusive business approach which affects them directly. Also the time horizon of the state actor's support is crucial.

In general, it is desirable that inclusive businesses sustain themselves in the long run without government or donor money. But although they might need outside support to get started, they can nevertheless quickly become independent. Nevertheless, after a short period, every true inclusive business venture should stand on its own feet. In this case it becomes less likely, that market distortions created by donor money or government subventions with "gratis" money are allowed to settle and manifest. As soon as businesses stay a blending of semi-market, semi-state initiatives, but compete on the market with a long-term perspective, it puts market mechanisms in danger and disadvantages local competition. Even in established markets, projects like the Austrian CARLA[1] can create "dumping-competition" for established businesses. The project caters to the respectable cause of re-integrating permanently unemployed people in a working environment. To reach its goal of creating stable jobs for underprivileged groups, it combines philantrophic funding by governments, foundations and private donors with a business model that creates revenues from the services it offers. This gives companies the possibility to integrate CARLA in their value chain as a cheap supplier because they don't calculate their prices on full-costs and are able to offer significantly below market prices. Such a set up on the one hand

[1] Projects of Caritas Vorarlberg, see www.arbeitsprojekte.at for more information.

allows the people working in the project to re-establish a certain working habit and gain valuable knowledge and skills. On the other hand, it lowers the prices for the services offered and makes it difficult for other suppliers to compete. If this situation remains unchanged, a social project becomes the dominant providers of certain services because they establish a monopoly due to price leadership. In the worst case, it leads to a decrease in market wages for people working in sectors where social projects are active.

5.3.2 What happens to the informal actors when a formal player moves in?

The effect of bringing a big player from outside into a – sometimes mainly informally organized – market is dependent of the structure of the informal economy. While MNCs, after a period of adaption, usually have advantages in terms of scale, quality and marketing, established players might have advantages in terms of existing networks, superior market knowledge and deeper understanding of consumer preferences. If informal actors and their resources cannot be included in inclusive business ventures, they do indeed face a severe challenge. Many times when a MNC moves into a new market or customer segment, it crowds out existing actors. This leads to the atomization or destruction of functioning arrangements. E.g. Tiviski Dairy replaced the old system of milk distribution with its new business model which was beneficial for a large number of people. Still, everyone involved in the old, informal arrangement had to find reorientation.

After a while this can lead to market domination of one (or few) established MNCs. Like this, whole cities or regions heavily depend and rely on the tax revenues and jobs of just one partner. Such a situation leads to two undesired effects: On the one hand, people and decision-makers in the area become dominated by the MNC. Every conflict of interest with the objectives of the MNC can result in a form of pressure on local decision-makers which have to choose between the needs of the people and the needs of the MNC. On the other hand, the exposed position of this one MNC creates increased expectations from stakeholders. All stakeholders adjust heavily to the processes of the company and rely on it even to fulfill the functions of government (infrastructure, safety, etc.). In both cases this sort of dependency will create imbalances in the long run (Jenkins, 2007: 14).

5.3.3 How do we measure the success of inclusive business?

As in many fields, causal relationships are very hard to establish in complex environments. To reduce poverty and support the UN Millennium Development Goals with the support of the private sector, the effects of certain measures have to be monitored and evaluated over medium and long-term time horizons. While output and outcome measurement of most inclusive business initiatives are established more easily, an impact assessment is a huge challenge. When are inclusive business initiatives successful? What goals are aimed for with the measures implemented and what other objectives might be subordinated to them?

Poverty is often measured by single ratios like *Consumption per Capita (in money units)* or *Calorie consumption per person per day*. It is widely recognized that single measures are not ideal to analyze human well-being and do have specific strengths and limitations. Because being poor means more than just a lack of money, poverty reduction has to be assessed on several dimensions, including e.g. social, economic and community development indicators (Haughton & Khandker, 2009: 1-9).

To further illustrate the dilemma of impact measurement, the debate on economic growth can be mentioned. The relationship between economic growth and poverty reduction remains highly unclear. Reports from Asia show very beneficial effects of economic growth on poverty reduction (Khan, 2006: 2). Others, like Todaro & Smith (2006: 602-603), emphasize the importance of distribution for a broad impact on poverty reduction. Examples from Africa and Latin America illustrate that in case of GDP growth in certain foreign-owned industries its effect on the gross national income (GNI) remains rather small. This means that in cases where industries are majority-owned by foreign nationals, growth in such industries does affect the official GDP numbers, but does little on reducing poverty because the additional income does not reach the country's population. So measuring for GDP growth alone, will not be useful in determining the success of inclusive business initiatives.

The analysis has identified several areas where development agencies like the SDC can act to promote and foster inclusive business and make sure its benefits can be used to reduce poverty.

6 RECOMMENDATIONS

Inclusive business practices can indeed have beneficial effects on both, developing countries and the businesses involved simultaneously. For it to work successfully and to unfold its impact, however, certain circumstances and factors are crucial. A closer look at these factors and circumstances in the previous chapter revealed important limits and challenges that inclusive business initiatives inhibit.

In the following chapter the focus shall be shifted towards possible actions to alleviate challenges attributed to inclusive business practices. It is argued that the improvement of them will ultimately positively affect the success factors, which, in turn, will augment the impact of inclusive business endeavours.

Development cooperation organisations can be considered as essential in enhancing inclusive business initiatives. Having their core competencies in development cooperation they know the needs of the poor. At the same time they do understand competitive business from previous and existing corporate partnerships in other areas than aid. Hence they can perfectly act as matchmakers and facilitators for the private sector to contribute to the reduction of poverty. The following section will show how the Swiss Agency for Development and Cooperation (SDC) can shape its bridging role and will elaborate what further and future actions the agency could undertake to foster inclusive businesses.

First, the SDC`s current position with respect to undertaking and supporting inclusive business initiatives will be mentioned briefly. In a second step - by drawing upon the benefits and limits associated with inclusive business practices as elaborated in the previous chapters - action possibilities shall be developed and presented for the SDC in this field. The recommendations do not constitute a concluding list but are rather points where there is potential for impact and that are highly important for making inclusive business happen and work successfully.

6.1 The Swiss Agency for Development and Cooperation & Inclusive Business

The SDC is a much-regarded player in development cooperation and has an extensive pool of knowledge and expertise. With its competencies it focuses on four core areas, namely regional cooperation, global cooperation, humanitarian aid and the Swiss Cooperation with Eastern Europe and the Commonwealth of Independent States (deza.admin.ch-a).

Within its regional cooperation, the SDC has also been looking into and using market approaches to contribute to poverty alleviation[2]. More recently the SDC has been following and engaging into inclusive business initiatives trough partnerships with the private sector. While teaming up with private actors to do inclusive business however, the SDC has met challenges. Questions such as *How to do inclusive business in cooperation with MNCs without risking to crowd out informal players?* or *How to meet the challenges associated with financing and managing risk in inclusive business initiatives including MNCs?* emerged.

As the recommendations will show, the SDC can well take on the important role of linking the realities of the people at the bottom of the pyramid and MNCs. While challenges exist and some solutions are yet to be developed, much can be done to alleviate the limitations and foster the benefits associated with inclusive business initiatives.

6.2 Action Possibilities

The SDC has a long and sound tradition in development cooperation. By pro-actively coordinating and co-working with the up streaming global inclusive business movement, the SDC could contribute to bringing it to another level and add to the sustainable success of inclusive business ventures. Three areas lying within the action competence of the SDC are emphasized below.

6.2.1 Advocacy – Inclusive Business Thinking

There is still vast potential for spreading the knowledge about the concept of inclusive business. Systemic constraints as pointed out in the previous chapter as well as social, economic and cultural challenges prevent inclusive business practices to properly strike roots in certain developing countries. In developed countries, on the other hand, ignorance and reservation to engage in inclusive business practices often prevail.

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[2] See e.g.: *Market Approaches that Work For Development – How the Private Sector can Contribute to Poverty Alleviation* by Urs Heierli, 2008, SDC

Making people aware of the existence of an inclusive business bus and all it takes for a successful ride fits well to the competencies of the SDC. In other words, with its competencies, its authority, access to governments and reputation in the fields of development cooperation, the SDC could credibly promote the idea of inclusive business. With a multi-level advocacy approach the SDC could aim at building capacity amongst governments, business and the public. In doing so, the SDC would add to disclosing the potential of the private sector`s ability to contribute to poverty alleviation and hence demonstrate its crucial role in development cooperation.

More specifically, the SDC could for instance embark on following activities:

- Set up an inclusive business centre to be able to continuously do research, follow recent developments and be up to date with knowledge in the inclusive business field. Such a centre could specify e.g. in fostering cooperating techniques with MNCs or corporate partners in the realm of inclusive business and develop as renowned point of reference.
- Search the dialogue with governments and promote discussions amongst them. As pointed out in the previous chapter, the regulatory regime is of utmost importance as it frames the conditions under which inclusive business can happen and will work. The case of the WBCSD-SNC Alliance contributing to the inclusion of inclusive business concepts into Ecuadorian regulations shows that organizations within the fields of sustainable development can and will reach out to governments (see SNV WBCSD, 2008b).
- Host international conferences as the one planned for January 2012 (deza.admin.ch-b). Such events enable e.g. practitioners to connect with policy makers or industry leaders to meet experts and learn from each other.

6.2.2 Knowing the Setting

As argued before, it is crucial for any MNC to engage in inclusive business practices in any developing country to have profound knowledge about the prevailing market conditions. Often, however, MNCs lack local knowledge such as what the business cultures are like and what preferences future consumers might have. To demonstrate this with our inclusive business bus example: before building a bus stop for the bus to stop at, it first needs to be clear were a bus stop is needed, i.e. where it would benefit all the involved parties the best. In addition, the business environment that will inevitably affect the establishment of such a bus stop must be known so that the involved parties can base their actions upon them. And that is where the SDC can step onto the floor. With its long tradition in development cooperation, the SDC can offer exactly this competence. By sharing its own knowledge and connecting all involved parties the SDC would contribute to establishing sustainable and successfully functioning inclusive business initiatives.

Lifting these thoughts to a more specific level, the SDC could consider building inclusive business knowledge hubs. Similar to the Hub Network[3] the hubs could be based in focus regions and aim at enabling inclusive business to work. People working for these hubs would have to be thoroughly familiarized with the business environment on the spot but also within MNCs, know social standards of the regions in question and have profound knowledge of the prevailing market forces. They would further scout for inclusive business initiatives and build cooperation networks. Their competencies would range from *facilitating* – e.g. knowledge exchange between inclusive business partners – *acting as brokers* – e.g. matching a local inclusive business initiative with the intention and competencies of an MNC to get involved – *connecting people* – e.g. promoting the concept of inclusive business by linking governments with experts etc. to *capacity building* – educating people about the market.

Such knowledge hubs would not only serve as platform for possible or future inclusive business partners to get to know each other's realities and practices but also enable parties to build trust. By creating a trusted learning and sharing environment for governments and locals on the one hand and MNCs on the other hand, the SDC can help to reduce uncertainties and risks, which, in turn, will considerably contribute to the establishment of successful inclusive business practices and thus to greater impact.

6.2.3 Creating the Inclusive Business Environment

Establishing and running an inclusive business will – as shown earlier – not happen without hurdles. Hence, our inclusive business bus will most likely not ride entirely smoothly. Overcoming the limitations and consequently enhancing what makes the bus go round will have to be top priority. This, in turn, will strengthen the action competence of all partners involved in an inclusive business initiative. With its know-how the SDC can play a vital and important role when it comes to such capacity building.

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[3] See http://the-hub.net/

In particular, the SDC could embark on the following strategies, some of which could be pursued by the inclusive business knowledge hubs:

Participate in Policy Development

Participating in Policy Development targets a sensitive nerve that existentially affects the functioning of inclusive business initiatives. As elaborated in section 5.2.2, a couple of success factors play an important role when it comes to designing effective inclusive business regulations. These factors will have to be taken into account when engaging in policy shaping and can be summed up briefly as follows (see SNV WBCSD, 2008b): collaborative approaches – e.g. by engaging societal stakeholders and business to indentify critical challenges when analyzing the predominant business frameworks - help to design consistent advocacy strategies. Reviewing and matchmaking with current policy agendas as well as identifying key policy advisors are further crucial elements. Policy recommendations will have to simultaneously match business concerns and constitute a gain in political leverage for the governments. As for the business perspective, e.g. tax breaks or simplified registration procedures play a vital role as illustrated in the Diageo case (see chapter 4.5). A proper advocacy work will ultimately play out into the alleviation of ineffective regulatory frameworks.

Infrastructure

As we have seen there is another factor in addition to efficient regulation which is essential for the private sector to sprout and develop: smoothly functioning infrastructure with public good characteristics. The INENSUS case study in chapter 4.3. has clearly shown the advantages of public private partnerships providing public goods an services. The inclusive business initiative did not only have positive effects on the general welfare by introducing a public good – energy supply – but had some cross-fertilization effects. By basing the energy supply on renewable energy, an environmentally protective effect has been brought about. The introduction of a well functioning energy supply will further spur economic activity, which again may invoke new inclusive business initiatives. Thus, it makes much sense for the SDC to team up with national firms or MNCs in these fields.

Coordinating, Integrating

As pointed out previously, the setting up of every successful inclusive business – be it by locals themselves or in cooperation with MNCs e.g. – will depend to a great extent on *partnerships*. Establishing partnerships, on the other hand, can be facilitated by offering access to networks.

By actively building regional and international inclusive business networks, the SDC could take on a facilitating role when it comes to establishing partnerships. These networks could e.g. be advanced by the inclusive business hubs and made accessible through workshops inviting all partners interested in setting up a particular inclusive business, i.e. by literary connecting people (see for example the aforementioned The Hub Network).

Enhancing *know-how transfer* is also of big importance: as argued, familiarising MNCs for instance with local specifics such as labour laws on the one hand, or, on the other hand, introducing locals to certain business processes is a vital factor in establishing an inclusive business. Coaching programs e.g. to promote needed skills and training for locals will obviously play out in business performance. Effective and efficient workforce on the other hand will boost the profitability of a business, which again is a crucial factor to consider for MNCs when contemplating about whether or not to engage in an inclusive business initiative. Successful examples of providing training to locals can e.g. be found in Vietnam: The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ, former GTZ) has provided local business people with entrepreneur training to foster their skills to lead competitive businesses (gzt.de). By promoting entrepreneurial and commercial skills and enhancing competitive businesses the course targets poverty reduction. All in all, the course has led to the participation of 11`000 people and has created a considerable amount of new jobs (enterprise-development.org).

Also when it comes to more delicate phenomena the SDC should assume a proactive role: effects such as *crowding out* informal actors or *imbalances* due to regions depending too heavily on one MNC are serious challenges when doing inclusive business in cooperation with MNCs that require attention and solutions. The SDC could e.g. advocate for policies aiming at limiting market shares of big firms reasonably to balance predominance of MNCs. To avoid crowding out effects the SDC could - with its regional knowledge and jointly with business and locals - work out action plans how to integrate informal actors into the whole inclusive business process at hand or develop alternative programmes to create different work opportunities.

Financial and Risk Management

As argued earlier, financing and risk management are highly delicate issues in partnerships between large companies and small producers. Financial instruments such as loan and credit provisions or long term purchasing agreements are often used, groundbreaking financial models are yet to be established however.

Attractive financial models could e.g. include collaborative research & development programs. These would give MNCs and local businesses bigger incentives to engage in inclusive business practices: joint ventures of this kind would lower the costs and thus increase profits of the involved businesses and simultaneously benefit the poor, which – as we have seen at the very beginning of this paper – are the two main criteria in the inclusive business approach.

Such innovative approaches are indeed underway. The SDC itself can step forward with an example. In 2007, it teamed up with a globally operating Swiss insurance company for an inclusive business initiative to carry out projects in 2-4 countries in Africa, Asia and Latin America (deza.admin.ch-c; Zurich, 2007). Financial support by the SDC was granted under the condition that the insurance published its experiences and findings and made it publicly available for it to have cross-fertilizing affects also on other inclusive business approaches. With this, the output was transformed into a public good (Keller, SDC, April 6th 2011).

Most importantly however, assuming that e.g. research & development is always to be started from scratch is wrong. Locally there is often more to it than meets the eye and existing local know how and innovation remain undiscovered. The SDC could embark on scouting for such innovations and e.g. make the entrepreneurial potential be used or linked to intentions of MNCs to engage in an inclusive business initiative. The Indian SRISTI[4] organisation can be listed as being successful in this field.

Monitoring, Evaluation - Impact Measurement

Monitoring, evaluating and impact measurement are essential to improve inclusive business models. This, on the other hand, will add to enforcing legitimacy of doing inclusive business and hence lower barriers for participants to actually get involved. As poverty shows many faces, measuring levels of poverty reduction proves rather difficult. Thus, impact measurement is a much-contested topic and best practices are yet to be established. Which indicators to measure and which measurement techniques are best to assess the indicators individually, has to be decided on a case-to-case basis. And yet, by acting as an independent watchdog and not only evaluating the evolution of inclusive business initiatives but also impact measurement techniques, the SDC could contribute to the integration of impact measurement practices.

In practice, it comes by no surprise that there exist a variety of approaches to evaluate inclusive businesses. E.g. the International Trade Center (2009) has used surveys to evaluate the success

[4] See http://www.sristi.org/

of its Export-led Poverty Reduction Programme (EPRP) based on several dimensions. Oxfam has developed a “poverty footprint” which includes five research areas for evaluation: macro economy, product development and marketing, institutions and policy, value chain analysis and social implications of environmental practices (Oxfam, 2010: 7).

7 CONCLUSION

The paper has shown how inclusive business fits into the variety of approaches that combine economic and social goals for the benefit of people and companies. By being inclusive to the poorest segments of society while still making the profit needed to sustain the effort over time, inclusive business models have the potential to be win-win situations.

No matter if the goal is catering to the poor as consumers or including them in the value chain, the economic power of MNCs can provide the vehicle that takes millions out of poverty. Their global value chains and sheer economic power make them the strong partners, public actors and the civil society need to fight poverty and reach the UN Millennium Development Goals. Nevertheless, the illustrated case studies have not only shown major benefits of inclusive business, but have also helped to identify key success factors and limitations to the approach. The SDC can perform a valuable role supporting inclusive business ventures in several ways. Avoiding direct financial support to MNCs, the SDC can act on several challenges to benefit the poor and foster inclusive business development while providing answers to its most pressing questions.

In the previous section, several areas of involvement for development agencies have been shown to give a variety of recommendations for the SDC. The recommendations are not to be understood as an enclosed list with exclusive actions but rather as a guide to critical levers and potential engagements. The SDC's long standing experience in the field of development cooperation, its knowledge about the specifics of many poor countries and its substantial network provide it with the unique opportunity to act as an advocate and facilitator of inclusive business.

To overcome inherent limitations of the approach and manage inclusive business initiatives for the biggest benefit for the poor, cooperation between the private and public sector, as well as the civil society is needed. If all work together towards a common goal, inclusive business might as well be a direct connection out of poverty.

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